

# USE AND EFFECT OF UNILATERAL TRADE SANCTIONS

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## HEARING BEFORE THE SUBCOMMITTEE ON TRADE OF THE COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

MAY 27, 1999

**Serial 106-68**

Printed for the use of the Committee on Ways and Means



U.S. GOVERNMENT PRINTING OFFICE

66-565 CC

WASHINGTON : 2000

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## CONTENTS

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Advisory of May 5, 1999, announcing the hearing .....	Page 2
WITNESSES	
U.S. Department of State, Hon. Stuart E. Eizenstat, Undersecretary of State for Economic, Business, and Agricultural Affairs .....	26
Congressional Budget Office, Richard D. Farmer, Ph.D., Natural Resources and Commerce Division .....	96
<hr style="width: 10%; margin: auto;"/>	
American Business Council of the Gulf Countries, David A. Hamod .....	68
Blumenauer, Hon. Earl, a Representative in Congress from the State of Oregon .....	16
Center for Strategic and International Studies, Sidney Weintraub .....	77
Dooley, Hon. Calvin M., a Representative in Congress from the State of California .....	13
Frutarom, Inc., Shirley Christian .....	54
Gibbons & Company, Hon. Sam M. Gibbons .....	40
Haass, Richard N., Brookings Institution .....	100
Idaho Grain Producers Association, Keith Kinzer .....	47
Lockheed Martin Corporation, and Lockheed-Khrunichev-Energia Inter- national, Inc., Hon. John N. McMahon .....	63
Nethercutt, Hon. George R., Jr., a Representative in Congress from the State of Washington .....	17
Small Business Exporters' Association, and Ellicott Machine Corporation International, Peter A. Bowe .....	50
United States International Trade Commission, Robert A. Rogowsky .....	82
SUBMISSIONS FOR THE RECORD	
American Bar Association, Section of International Law and Practice, state- ment .....	106
American Farm Bureau Federation, statement .....	106
Electronic Industries Alliance, Arlington, VA, statement .....	108
European-American Business Council, Willard M. Berry, statement .....	110
Frutarom, Inc., statement .....	112
Importers Service Corporation, Jersey City, NJ, Eric Berliner, letter and attachment .....	112
U.S. Chamber of Commerce, Willard A. Workman, statement .....	8



## **USE AND EFFECT OF UNILATERAL TRADE SANCTIONS**

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**THURSDAY, MAY 27, 1999**

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON WAYS AND MEANS,  
SUBCOMMITTEE ON TRADE,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 11:08 a.m., in room 1100, Longworth House Office Building, Hon. Philip M. Crane (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

# ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

## SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE

CONTACT: (202) 225-1721

May 5, 1999

No. TR-8

### **Crane Announces Hearing on the Use and Effect of Unilateral Trade Sanctions**

Congressman Philip M. Crane (R-IL), Chairman, Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the use and effect of unilateral trade sanctions. The hearing will take place on Thursday, May 27, 1999, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 11:00 a.m.

Oral testimony at this hearing will be from both invited and public witnesses. Invited witnesses will include the Honorable Stuart E. Eizenstat, Undersecretary of State for Economic, Business, and Agricultural Affairs. Also, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee or for inclusion in the printed record of the hearing.

#### **BACKGROUND:**

A number of U.S. laws and executive actions authorize unilateral economic or trade sanctions on other countries or entities for a variety of purposes, including: human rights, anti-terrorism, nuclear non-proliferation, political stability, anti-narcotics, worker rights, and environmental protection. While these sanctions are imposed for foreign policy, national security, or other non-trade reasons, they have consequences on the U.S. economy in terms of lost trade opportunities for U.S. firms and workers. Studies have found that U.S. unilateral sanctions cost the U.S. economy \$15 to \$19 billion per year in lost exports.

In recent years, Congress has passed several unilateral trade sanctions limiting the ability of U.S. companies to trade with certain countries, including third party countries or entities involved in trade with sanctioned countries. For example, the Iran and Libya Sanctions Act of 1996 (P.L. 104-172) mandates sanctions against foreign investment in the petroleum sectors of Iran and Libya as well as exports of weapons, oil equipment, and aviation equipment to Libya. The Cuban Liberty and Democratic Solidarity Act (P.L. 104-114), commonly known as "Helms-Burton" or the Libertad Act, strengthened the U.S. embargo against Cuba and established sanctions against certain persons or entities in third countries involved in trade and investment in Cuba. Most recently, the International Religious Freedom Act of 1998 (P.L. 105-292) was enacted to provide for the imposition of sanctions against countries engaged in a pattern of religious persecution.

Other statutes provide discretionary or mandatory authority to the President to impose unilateral sanctions under certain circumstances. Among these statutes are the International Emergency Economic Powers Act (IEEPA, P.L. 95-223, Title II), the International Narcotics Control Trade Act (P.L. 99-570, Title 9), the International Security and Development Cooperation Act of 1985 (P.L. 99-83), and the Arms Export Control Act (AECA). Recent unilateral sanctions imposed by executive action under IEEPA and other statutes include those invoked against Burma (Myanmar) in May 1997 and Sudan in November 1997. After India and Pakistan tested nuclear devices in May 1998, the President implemented sanctions mandated under the AECA. Subsequently, Congress passed legislation, P.L. 105-194, exempt-

ing for one year AECA restrictions on financing for food and agricultural exports. In November, President Clinton eased some economic sanctions using the one-year waiver authority given to him under the Omnibus Appropriations Act for fiscal year 1999 (P.L. 105-277).

On April 28, 1999, President Clinton announced a formal policy change in the way unilateral sanctions are imposed under executive action. Specifically, the policy change exempts commercial sales of agricultural commodities and products, medicine, and medical equipment from new unilateral economic sanctions regimes unless doing so is in the national interest. With respect to currently embargoed countries, the President also approved a modification to current licensing policy to permit, to the extent permitted by law, the case-by-case review, according to certain specified criteria, of proposals for commercial sales of agricultural commodities and products, medicine, and medical equipment to Iran, Libya, and Sudan.

In the 106th Congress, Chairman Crane, together with 72 bipartisan cosponsors, introduced H.R. 1244, the "Enhancement of Trade, Security, and Human Rights Through Sanctions Reform Act," to provide a procedural framework for the consideration of future legislative and executive sanctions. In addition, H.R. 1244 would amend the AECA to provide permanent waiver authority to the President with respect to the sanctions imposed against non-nuclear countries that conduct nuclear tests.

In announcing the hearing, Chairman Crane stated: "In recent years, we have seen a significant increase in the tendency to impose unilateral trade sanctions in the pursuit of foreign policy or other non-trade objectives. Often it is hard to see any tangible results of the sanctions, except in terms of lost opportunities for U.S. exporters to the benefit of our foreign competitors in the global market and to the detriment of our businesses, workers, and consumers. Before we impose unilateral sanctions in the future, we should have a full understanding of their ramifications and the probability that they will produce the desired results. Moreover, we should fully explore the possibility of multilateral sanctions before acting unilaterally to enhance the likelihood of achieving our goals. I look forward to this opportunity to learn more about the implications of U.S. unilateral trade sanctions on U.S. economic interests."

#### **FOCUS OF THE HEARING:**

The focus of the hearing is to examine the use of U.S. unilateral trade sanctions, including those imposed by legislative and executive action. The Subcommittee will also assess the impact of such sanctions on the U.S. economy, businesses, workers, and consumers, as well as whether recent trade sanctions have achieved their stated goals. Finally, the Subcommittee will take testimony on the procedural framework proposed in H.R. 1244 to govern the consideration of future unilateral economic sanctions to ensure that they actually advance U.S. interests.

#### **DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:**

Requests to be heard at the hearing must be made by telephone to Traci Altman or Pete Davila at (202) 225-1721 no later than the close of business, Thursday, May 20, 1999. The telephone request should be followed by a formal written request to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee on Trade staff at (202) 225-6649.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. **THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED.** The full written statement of each witness will be included in the printed record, in accordance with House Rules.

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies, along with an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, of their prepared statement for review by Members prior to the hearing. Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than Tuesday, May 25, 1999. Failure to do so may result in the witness being denied the opportunity to testify in person.

#### **WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:**

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) single-spaced copies of their statement, along with an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, with their name, address, and hearing date noted on a label, by the close of business, Thursday, June 10, 1999, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, by the close of business the day before the hearing.

#### **FORMATTING REQUIREMENTS:**

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be submitted on an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, typed in single space and may not exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers where the witness or the designated representative may be reached. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press, and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at '[HTTP://WWW.HOUSE.GOV/WAYS\\_MEANS/](http://WWW.HOUSE.GOV/WAYS_MEANS/)'.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.



Chairman CRANE. All right, I think we will come to order and proceed with our hearing this morning.

We are going to be interrupted, I am told, by a vote in about one-half hour on the rule on the floor, and then we will reconvene after that and proceed.

This is a hearing of the Subcommittee on Trade on the use and effect of unilateral trade sanctions. In recent years, there has been a growing tendency by both the Congress and the executive branch to impose unilateral trade sanctions to enforce foreign-policy or other non-trade goals.

There is little evidence, however, to suggest that sanctions have achieved their stated goals. Instead, the use of sanctions has translated into billions of dollars in lost opportunities for U.S. exporters to the benefit of European, Japanese, and other foreign competitors, whose home governments have not bound them by similar sanctions.

And, in fact, I saw a recent report that it is about \$20 billion a year that we are losing in trade because of the unilateral sanctions and thousands and thousands of high-wage jobs here in the United States.

Unilateral sanctions have long-term ramifications for U.S. firms and workers in terms of ceding market shares to our foreign competitors and adversely affecting the reputation of the United States as a reliable supplier of goods and services. I believe that the better policy is to pursue our goals through multilateral fora with our allies and trading partners.

By developing a consensus approach to changing the offending behavior of the targeted government, we increase the likelihood of success and ensure that the full brunt of the sanctions is felt by the targeted government. Experience has shown us that before we impose unilateral sanctions, we should think long and hard about the direct effect of such sanctions on the U.S. economy and the likelihood of success if we act alone.

Earlier this year, 16 Members of the Ways and Means Committee, including Chairman Archer, joined me, Congressman Dooley, and Congressman Manzullo in sponsoring bipartisan legislation to provide a commonsense framework for the consideration of future or unilateral trade sanctions. This legislation, H.R. 1244, the Enhancement of Trade, Security, and Humans Rights Through Sanctions Reform Act, would not prohibit the imposition of trade sanctions, but it would establish a more deliberative and disciplined approach to U.S. sanctions policy. We currently have 90 cosponsors.

Specifically, H.R. 1244 would ensure that Congress and the Administration have adequate information about the likely effectiveness, as well as economic and humanitarian costs, of a proposed sanction. Moreover, the bill would provide for a detailed analysis of whether the proposed sanction is the best tool for achieving U.S. objectives and would establish regular reporting and sunset requirements if a sanction is imposed.

Finally, the bill would provide permanent waiver authority to the President under the Glenn amendment, the provision of law which required the President to impose sanctions against India and Pakistan last year.

Overall, I believe that the framework provided by H.R. 1244 would allow us to pause and examine the impact that unilateral sanctions would have before we rush into what may be a counter-productive effort.

And I would now like to recognize Mr. Levin—here, let me remove that.

[Chairman removes paper from Mr. Levin's nameplate.]

Mr. LEVIN. What did that say?

Chairman CRANE. It said, "Mr. Gibbons, Chairman." [Laughter.]

I recognize Mr. Levin, the Ranking Member of the Trade Subcommittee for an opening statement.

Mr. LEVIN. Well, Mr. Chairman, I am glad we have called this—you have called this hearing today on this very important subject of unilateral trade sanctions. And I am pleased to see that we have a very distinguished group of witnesses who will help us with this topic, including several of our colleagues, including, as you indicated with your sign, the former chairman of our Committee. I think he deserves better than a paper sign. [Laughter.]

And the Deputy Secretary of the Treasury-designate Stuart Eizenstat.

I know that each of our witnesses has given a great deal of thought as to how we use sanctions as instruments of foreign policy and how they affect the American economy. In conducting foreign policy, our country relies upon a wide range of tools. At the one end of the spectrum is simple jawboning; at the other is the use of military force.

In between is a variety of diplomatic and economic incentives and deterrents. Being able to select from an array of instruments is surely essential to the pursuit of a sophisticated and effective foreign policy, but at the same time, we must recognize that there are costs associated with whatever instruments we employ.

As I know some of today's witnesses will tell us, when it comes to trade sanctions, the costs are often difficult to quantify. It is not, though, simply a question of lost purchases or sales for U.S. enterprises. Sanctions may mean lost opportunities to develop lucrative business relationships with enterprises in the targeted country as well as with enterprises in third countries that wish to do business.

They may also mean increased legal costs for companies seeking to navigate complex sanction regimes. The ability of U.S. companies to do business in a formally sanctioned country also, once those sanctions have been lifted, may entail higher than usual startup costs. And the simple unpredictability that comes with some sanctions may be very costly.

The fact that these sanctions may come at a cost to particular U.S. businesses and to the U.S. economy in general does not mean they should never be used. However, we should take those costs into account in deciding whether and how they should be utilized. And we should weigh those costs against the goals we are seeking to accomplish and the likelihood that they can be accomplished.

Unfortunately, it seems that thorough cost-benefit analysis does not always accompany the imposition of a new sanction. This is suggested by the proliferation of trade sanctions in recent years. And we hear testimony in October 1997 from Mr. Eizenstat on that score.

Additionally, in recent years, we have seen a growing number of State and local sanctions, usually in the form of selective purchasing laws, affecting U.S. trade relations.

With the end of the cold war and the increasing globalization of the economy, it is understandable that trade sanctions have become a more attractive tool of foreign economic policy.

Recognizing the use of this tool, we need to assess what guidelines are or should be followed governing their use. I expect that the witnesses testifying today will offer suggestions on how to do that, and we look forward to discussing this with them.

Mr. Rangel will be here later, I believe. He has been detained. And I would ask that his statement be entered into the record.

Chairman CRANE. Without objection.

[The opening statement of Mr. Rangel follows:]

**Statement of Hon. Charles B. Rangel, a Representative in Congress from the State of New York**

Mr. Chairman, thank you for holding today's hearing on this important topic. As you know, I have long been interested in the effectiveness, or lack thereof, of using unilateral trade sanctions. I believe that there are probably some limited instances where unilateral trade sanctions are warranted. The imposition of unilateral sanctions in South Africa was a prime example of when it is appropriate to use such tools. In that case, we and the rest of the world held fast to the belief that such sanctions were morally and universally needed to overcome the injustices of apartheid.

As the South Africa experience shows, trade sanctions are sometimes useful and necessary in very limited situations. When used in appropriate circumstances, they can be effective in reaching the intended results. However, in the vast majority of instances where unilateral trade sanctions are applied, I believe that the intended objectives sought by the imposition of sanctions is both ambiguous and ineffective. Cuba is a prime example of sanctions simply not accomplishing the intended results.

The application of trade sanctions in Cuba was originally intended to topple the communist government. It was never intended to harm women, children or the elderly. Unfortunately, the stated objective has not been met. Fidel Castro is alive and well and still in power, notwithstanding our best efforts to implement sanctions. What the unilateral sanctions have done is to harm the weakest and most vulnerable members of Cuba's society. Women, children and the elderly are the ones that are suffering from our trade sanction policies, not Fidel Castro.

In January, the Administration agreed to ease some of the restrictions placed on our ability to interact and trade with the Cuban people, out of recognition that we must stop hurting the very people we are trying to free from this repressive regime. The new policy eases restrictions on travel to and from Cuba, and finally re-establishes direct mail service between our two countries. These may seem like small measures, but they will have a big impact. It is only by re-establishing ties with the people of that country—by reaching out to them, rather than isolating them—that we will bring about an end to the Castro regime.

As part of its new policy, the Administration also announced that it would allow commercial sales of agricultural commodities to non-governmental entities in Cuba. The Administration's decision to stop using "food as a tool of foreign policy" is the right one. Unfortunately, the announced policy is lacking in two key areas. As a result, I believe the intended benefits of this policy change will not be realized by the people of Cuba.

First, U.S. banks will not be allowed to provide financing for commercial sales of food. I question whether the sales will happen unless we allow financing for these limited transactions.

Second, sales may be made only to private entities. Again, this limitation creates a significant obstacle to these sales actually happening, given that there is very little, if any, private ownership in Cuba, including of farms. In contrast to its new

Cuba policy, the Administration announced that under a new sanctions policy for other countries, such as Iran, Libya and Sudan, it will allow agricultural sales to parastatal entities. I do not understand why we have one policy for Cuba and another for these other countries. If our intent is to ensure that the people of these countries have the food they need to survive, then we must change our policies in a way that makes that happen. Symbolic gestures will not feed these people.

Moreover, while the Administration's recent efforts on Cuba are a step in the right direction, I think we need to do more now. The use of economic sanctions in Cuba has many drawbacks. Unilateral sanctions have reduced American corporate competitiveness, and resulted in a needless backlash of anti-American sentiment among our allies. Further, our isolationist policy toward Cuba is inhibiting our ability to work with that country on drug interdiction efforts. Cuba wants to stop the flow of drugs from Central and South America through their country and into ours, but it cannot because it lacks the funds and equipment it needs. And we cannot give them what they need because we are too focused on isolating rather than helping.

There is a better way of bringing about political change in Cuba. Engagement, rather than utilization of an ineffective unilateral trade sanction, is the better approach. I believe it's time we all took a good dose of common sense and tried that approach.

I have offered two pieces of legislation, H.R. 229, which would end the useless embargo we have against Cuba, and H.R. 230, which would exempt food, medicines, medical supplies, medical instruments, and medical equipment from the embargo. At the heart of both pieces of legislation is the goal of helping the most vulnerable members of Cuban society. For once, Mr. Chairman, let us be guilty of doing the right thing at the right time. I hope you will consider holding another hearing to consider these proposals. I would be honored to work closely with you in that endeavor.

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Mr. LEVIN. And I would also notice that one witness—note—that one witness who was invited to appear today at Mr. Rangel's request, Willard Workman of the U.S. Chamber of Commerce, will not be able to appear due to scheduling conflicts. And his written statement is submitted for the record.

Chairman CRANE. Without objection.

[The prepared statement follows:]

**Statement of Willard A. Workman, Vice President, International U.S.  
Chamber of Commerce**

INTRODUCTION

The U.S. Chamber is the world's largest federation of business organizations, representing more than three million businesses and professional organizations of every size, in every business sector and in every region of the country. The Chamber serves as the principal voice of the American business community. An important function of the Chamber is to represent the interests of its members before the U.S. Congress, the Executive Branch, the independent agencies of the federal government, and the federal courts. The Chamber welcomes this opportunity to present its views on the use and effect of unilateral economic sanctions.

ENGAGEMENT, NOT ISOLATIONISM, FOSTERS POSITIVE CHANGE

The Chamber is second to none in its quest for basic human rights and political and economic freedom. No reasonable or moral person can countenance the persecution, torture and other atrocities that are committed around the world against our fellow human beings, whatever the political, economic, social or religious pretext. Basic human rights are core American values. We believe just as strongly in the need to combat other man-made scourges, such as terrorism, weapons proliferation, and drug trafficking, that plague us. But we do not believe that unilateral economic sanctions are an appropriate approach toward solving these problems.

Throughout the U.S. and around the world, individual liberty and free enterprise go hand in hand. By their very presence and operations, American companies and the expatriate communities that depend on them contribute mightily to economic, political and religious freedom in their host countries. Continuing U.S. company

presence and engagement abroad is critical to the inculcation of American civic values. Evidence of the positive effects of the U.S. presence abounds worldwide.

In 1980, nearly every country in Latin America, lived under authoritarian regimes and closed economies. But after years of economic liberalization and efforts to attract foreign investment—much of it from the United States—every nation in Latin America except Cuba is now democratic. While there remain significant problems and challenges to these democratic systems in many countries, there is no question that political and economic liberalization have proceeded together. And our unilateral policy toward Cuba—the hemisphere's last holdout against democratic change—has served to reinforce rather than weaken Castro's dictatorship, and to discourage, rather than encourage, the democratic changes we all seek.

In eastern Europe and the former Soviet Union, a combination of economic collapse and a continuing quest for economic, political and social freedom led to the end of generations of totalitarian Communist rule. Considerable credit for this victory is due to the Catholic Church under Pope John Paul II's leadership and the Solidarity labor movement in Poland. But at the same time unrelenting exposure to western culture, economics and politics played a significant role. Through its business council network, the Chamber federation and the U.S. business community have had an organized presence in the former Soviet bloc since at least the Brezhnev era. And it is through networks such as these that western society is best able to maintain a lifeline to the forces of reform and freedom in that part of the world. While progress in the region is clearly uneven, substantial reforms have taken place in the Czech Republic, Hungary, Poland and Slovenia. And despite enormous problems that persist to this day, Russia has cast off seven decades of Communist rule and continues to move forward in its own way toward modernity.

In Asia, U.S. trade and investment played significant roles in fostering the transition away from authoritarianism and toward democracy in Taiwan and Korea. And in China, U.S. business presence has resulted in greater job choice for workers, higher wages and living standards, better workplace safety and health standards, improved education and training opportunities, and a host of other benefits sought by workers in the U.S., China and all over the world. And as hundreds of millions of Chinese people continue to migrate from the interior to the coastal regions to take advantage of these imported economic opportunities, the potential for expanded U.S. economic, social, cultural influence will be historic. These workers will make more money, read more western books and periodicals, and receive greater exposure to western ideals of social, economic and political reform than their compatriots who remain isolated. Unilateral restrictions on U.S. firms in China not only imperil U.S. competitiveness in that country, but also undermine a principal source of human progress for nearly one-fourth of the world's people.

In southern Africa, it is precisely the multilateral character of sanctions against South Africa—rather than a unilateral, go-it-alone approach—that permitted those sanctions to have some positive effect. And it should not be forgotten that the de Klerk regime's concerns over increasing internal violence were no less important than external economic sanctions as a motivating force for South Africa's own home-grown version of glasnost.

#### UNILATERAL SANCTIONS DO NOT WORK

Recent history is replete with U.S. actions to terminate, restrict, or impose unilateral conditions on commerce with other nations for the stated purpose of penalizing various aspects of other countries' behavior. The United States has imposed some form of economic or trade sanctions on other countries more than 120 times in the past 80 years. Over half of these have been imposed in the last five years. Currently, the U.S. maintains unilateral economic sanctions of one kind or another against over seventy countries.

And in virtually all meaningful instances, those actions failed to alter materially the target countries' objectionable behavior. Instead, erstwhile "allies" castigate U.S. foreign policy, while the regimes we target gain support and U.S. businesses and their workers bear the burden of market opportunities lost to Asian and/or European competitors, whose own countries have chosen not to embark on similar unilateral courses of action. Various studies have indicated that unilateral sanctions have cost the American economy between \$15 billion and \$20 billion a year in lost export sales, and up to 250,000 export-related jobs. And this may be an understatement, as it is often difficult to quantify additional business opportunities that were lost because they were never pursued in the face of unilateral sanctions.

Moreover, unilateral economic sanctions imposed by the United States often exact horrific costs when measured by the adverse effects on the quality of life of the most vulnerable citizens in targeted countries. The embargo against Cuba is a

case in point: despite a nearly four-decades-long embargo against that country, Castro is not only still well-established as head of state, but we maintain restrictions on the sale of food and medicine to that country that we don't maintain against much worse regimes, such as Iraq and North Korea.

Other major industrial countries that find themselves targeted by U.S. sanctions are not sitting still for them. The European Union has made clear on several occasions that it will not remain idle in the event sanctions are imposed on its companies that do business in or with Cuba, Iran and Libya.

In November 1997, Russia's huge natural gas consortium Gazprom—which controls 40 percent of the world's natural gas—cancelled a \$750 million Eximbank deal that would have permitted U.S. equipment producers to supply a \$2 billion Gazprom gas field development project. Gazprom took this action because U.S. policy objected to the fact that the project is in Iran. Yet, participating French, Russian and Malaysian companies faced no similar constraints, and U.S. sanctions policy will do nothing to stop the project.

The continuing unilateral U.S. embargo of Cuba—which was codified and expanded with the 1996 enactment of the Helms-Burton legislation—has not only failed to weaken that country's Communist regime, it has actually permitted that regime to obtain quasi-martyr status by permitting its subjects to focus on an external enemy, namely, the United States. With the enactment of Helms-Burton, the Cuba embargo has mutated into a secondary boycott of a variety of Canadian, European and other interests—some of whose governments have actually passed laws blocking their citizens from complying with this U.S. law in their countries.

In south Asia, the U.S. threat and subsequent application of automatic, non-discretionary sanctions failed to deter either India or Pakistan from taking nuclear proliferation steps each regarded as indispensable to its national security. Worse, without flexibility and discretion, the U.S. government found itself in a very weak position to engage the two states in order to stabilize one of the most dangerous conflicts on earth.

Opposition to U.S. sanctions policies is not limited to business leaders, policy analysts and technocrats. During his 1998 trip to Cuba, Pope John Paul II made very clear his humanitarian opposition to the U.S. embargo against that nation. Similarly, with respect to China, the Dalai Lama has spoken on several occasions of his preference for engagement as opposed to efforts to isolate that country. And prior to his 1998 visit to the United States, South Korean President Kim Dae Jung called for a relaxation of the multilateral embargo against North Korea, on the grounds that those sanctions have extracted major costs from the North Korean people without achieving significant changes in their government.

#### STATE AND LOCAL ECONOMIC SANCTIONS ARE UNCONSTITUTIONAL

As problematic as federally-imposed unilateral sanctions are, they are by no means the only problems with which we must come to grips.

Increasingly, state and local governments are seeking to express their displeasure at developments in other countries by punishing dozens of them—and their industries and companies—for a variety of human rights, labor, environmental and other policies and practices. Dozens of state and local measures are either on the books or awaiting action which, among other things, would restrict local and state procurement from and/or investment in companies doing business with targeted countries.

On April 30, 1998 the National Foreign Trade Council (NFTC), an association representing some 550 companies with substantial international interests, filed a lawsuit challenging the constitutionality of a Massachusetts law prohibiting state agencies and authorities from contracting with companies that do business in Burma. Doing business is defined very broadly and would, for example, include U.S. subsidiaries of foreign parents. This means, for example, that a U.S. subsidiary of a Japanese parent could be subject to sanctions—even if the U.S. subsidiary had no connection to Burma—if the Japanese parent was doing business in Burma, as allowed under Japanese law.

The NFTC's challenge to the "Massachusetts Burma law," as it has come to be known, was based on three principles:

1. Responsibility for the conduct rests with the federal government, and should rest as such, as it is the entire United States that is targeted for criticism or retaliation by other countries as a consequence of foreign policy actions taken by states.

2. The Massachusetts Burma Law also violates the Foreign Commerce Clause of the United States Constitution, which prohibits state laws that discriminate against foreign commerce, burden foreign commerce, or impede the federal government's ability to "speak with one voice when regulating commercial relations with foreign governments."

3. The Massachusetts Burma law conflicts with and undermines more limited and responsible federal efforts to bring about desired changes in Burma's repressive internal policies. Significantly, those federal efforts include a commitment to work with other countries in the region, as well as trading partners, to achieve the desired changes.

The U.S. Chamber views the proliferation of such state and local initiatives around the country with alarm. For this reason, we were pleased to endorse the NFTC effort via *amici curiae* briefs we filed in July 1998 and again in March 1999. On November 4, 1998, the U.S. District Court for Massachusetts agreed with the NFTC and the Chamber and struck down the Massachusetts law. Application of a patchwork quilt of often inconsistent sub-federal sanctions on top of our already flawed federal regime—which will prompt numerous, as yet undefinable and hostile foreign reactions—threatens to do incalculable additional harm to our national interests.

#### RECOMMENDED CHANGES IN U.S. SANCTIONS POLICY

U.S. economic sanctions policy is in clear need of substantial revision. The failure of the automatic sanctions we imposed on India and Pakistan in the wake of their nuclear tests is but one indicator of this need. The current system simply cannot work. Accordingly, to begin coming to terms with the global realities of the 1990s and beyond, we should refrain from using unilateral economic sanctions other than to counter direct threats to the national security of the United States. There is no evidence that such sanctions have achieved their stated objectives. The U.S. experience is that the only measurable consequences of unilateral economic sanctions have been harmful to American businesses and their workers. Congress and the Administration should also enact legislation and take other actions as needed to:

*Mandate the application of a series of "cost-benefit" measurements and evaluations that must be considered prior to implementation of economic sanctions.* U.S. laws currently require that we consider the environmental impact of a wide variety of economic projects and initiatives. U.S. law identifies preservation of endangered species, maintenance of clean air and water and other objectives as of such importance that other activities should be placed on hold if they might run counter to these objectives. Yet we maintain almost no comparable standards for protecting our national interests from potentially unwise foreign policy actions. It makes no sense for us to assign lower priority to vital U.S. international interests than we do to our domestic environmental interests. Accordingly, we should establish and enforce a series of criteria that require consideration of costs and benefits before sanctions are imposed. Such criteria should include: (a) will the sanctions work; (b) what are the resultant economic costs to U.S. industry and agriculture; (c) will the sanctions result in a serious backlash against other U.S. humanitarian, security, and foreign policy objectives; and (d) have other policy alternatives such as multilateral initiatives or diplomacy, been tried and failed? Bipartisan legislation introduced by Chairman Phil Crane, the "Enhancement of Trade, Security, and Human Rights through Sanctions Reform Act" (H.R. 1244), and similar legislation (S. 757) introduced by Senator Richard Lugar, are models for achieving these objectives. Economic sanctions activity that should be subject to Crane-Lugar criteria includes, but is not necessarily limited to: (a) prohibitions or restrictions on export or import trade with target countries; (b) prohibitions on investment or other types of participation in target countries; (c) denial of access to the benefits of trade and investment development programs, such as Eximbank, OPIC, the Trade and Development Agency or other trade agencies identified in the annual *National Export Strategy* report; (d) opposition to World Bank, International Monetary Fund and other multilateral assistance programs in target countries; (e) secondary boycotts or other penalties against third countries which permit their nationals to do business in U.S.-targeted countries; (f) government application of "codes of conduct" to U.S. company behavior; and (g) unilateral prohibitions or restrictions on U.S. travel by nationals of targeted countries or third countries doing business with targeted countries.

*Make China's "Normal Trade Relations" (NTR) status permanent.* Termination of Normal Trade Relations (previously known as "Most-Favored-Nation" or MFN status) with China would amount to a draconian economic sanction against the world's largest nation and one of its fastest growing economies. U.S. tariffs on imported Chinese products would skyrocket and Chinese retaliation would be certain and severe. Our Asian and European competitors would fill in the vacuum left by American business and we would forfeit countless opportunities for leaving an American imprint on the development of China's rapidly evolving society. Congress did the right thing last summer when it recognized "Most-Favored-Nation" status as normal trade treatment which we provide virtually to every trading nation. Revised U.S.

laws reflect this changed designation. Still, the annual NTR renewal process itself casts a continuing pall over China-U.S. commercial relations—without regard to the actual outcome. Pending China-U.S. deals are in effect held up or suspended for weeks before each annual China vote until it can be confirmed that the vote will be “positive.” It is time to enact such legislation as may be necessary to make permanent that status.

*Lift the embargo on Cuba.* The “Cuban Democracy Act” (incorporated into Public Law 102–484) and the “Cuban Liberty and Democratic Solidarity (LIBERTAD) Act of 1995” (Public Law 104–114) should be repealed. Both statutes are notable for their isolating effects on U.S. foreign policy and continuing failure to weaken the Castro regime. The latter, more severe statute, often referred to as the “Helms-Burton” law, codifies and goes beyond the three-decades-old unilateral U.S. embargo of Cuba. However, it has failed to weaken Castro’s regime as intended. But its extraterritorial provisions providing for lawsuits and entry restrictions against foreigners doing certain business in Cuba have undermined U.S. interests and reputations in Canada, Europe and elsewhere. As noted above, both Canada and Europe have enacted blocking statutes which prohibit compliance with the Helms-Burton law in their countries.

*Repeal section 211 of the fiscal year 1999 supplemental appropriations law (Public Law 105–277).* Enacted on October 21, 1998, this provision prevents enterprises that operate “in connection with” property confiscated by the Cuban government from registering a trademark in the U.S. or from pursuing any enforcement of its trademark or trade name by way of treaty rights, registration rights or common law rights—regardless of whether the prior owners of such marks maintained them in the United States in conformity with this country’s laws. This provision prevents U.S. courts from enforcing the referenced Cuban enterprises’ common law rights against false advertising, trademark or trade name violations, inaccurate product descriptions, etc. Therefore, with respect to Cuba, U.S. courts are now prevented from enforcing treaty rights established under the 1931 Inter-American Convention on Trademarks, to which both the U.S. and Cuba are signatories. As a result, and under public international law, Cuba is now relieved of its 1931 treaty obligations to recognize U.S. marks registered in Cuba. Dozens of U.S. companies have been therefore identified as registrants of such marks and, as such, are in danger of losing intellectual property protections to which they were entitled under the 1931 Convention. Section 211’s implications extend to non-U.S. firms as well. On April 13, Judge Shira Scheindlin of the U.S. District Court for the Southern District of New York ruled that Section 211 prevented her recognizing a Cuban-French joint venture’s right to a trade name they contended was being misused by a Bermudan company defendant.

*Lift restrictions on the sale of food, medicine and medical supplies, medical instruments, and medical equipment.* As noted above, U.S. unilateral economic sanctions do not work, and are often even injurious to U.S. national interests. But such sanctions are especially pernicious when they harm women, children and other particularly vulnerable citizens of another country, without achieving the objectives we are seeking. There can be no moral or practical basis for denying our fellow human beings the opportunity to purchase or receive donations of food and medicine in the absence of a clear and present danger from those persons to U.S. national security interests. There are several bills pending in Congress which would address this issue either in individual countries (e.g., Cuba) or worldwide and should receive favorable consideration.

*Repeal requirements for unilateral sanctions against Iran and Libya as contained in the “Iran and Libya Sanctions Act” (Public Law 104–472).* Among other things, this law (often referred to by its acronym ILSA) directs the President to impose extraterritorial U.S. sanctions against foreign firms engaged above a certain financial threshold in the development of those countries’ petroleum sectors. National security waiver authority is available. Nevertheless, like the Helms-Burton law, ILSA has unnecessarily and counterproductively irritated Europe-U.S. relations without achieving the results its advocates have sought. At the same time, ILSA has added to the pall of unreliability that U.S. firms operate under, through no fault of their own.

## CONCLUSION

As the twenty-first century approaches, global competition becomes more acute, and U.S. leadership becomes ever more critical, we as a nation must take stock of our mission, our capabilities and our limitations. Despite numerous conflicts and differences we share with other nations, the United States is still both the sole remaining superpower and an inspiration to billions of our fellow human beings. The fall



of Communism demonstrates that the market-based American approach to prosperity is critical to our continuing status, power and influence. But leadership requires a willingness of others to follow. If we use our clout to engage other societies as they aspire to our freedoms and accomplishments, we can grow and lead indefinitely. But if we insist on adhering to a restrictive, isolationist model that has no relevance to the global community, other nations will look for other paths -paths which may lead not only to tragic consequences for them, but diminished horizons for us as well.

Going it alone no longer works, if it ever really did. As President Reagan was fond of repeating, we have a choice: lead, follow or get out of the way. Through engagement, we can lead. With unilateral sanctions, we encourage others to push us out of the way.

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Chairman CRANE. We have a full schedule today, and in the interest of time, I would ask our witnesses to limit their oral testimony to 5 minutes each. We will include your entire written statement as a part of the permanent record.

Our first panel will consist of our colleagues, Congressman Cal Dooley of California, Congressman Adam Blumenauer of Oregon, and we will get Congressman George Nethercutt of Washington. He is testifying before another Committee right now. But he will join us later.

And all of them have been working extensively on this issue and are cosponsors with me of H.R. 1244.

And with that, I yield to you, Mr. Dooley.

**STATEMENT OF HON. CALVIN M. DOOLEY, A REPRESENTATIVE  
IN CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. DOOLEY. Well, thank you, Mr. Crane and Mr. Levin. I am delighted to be joining you here today to testify in support of H.R. 1244. And I am pleased that we have been able to generate a broad, bipartisan base of support both in the House and the Senate for this legislation. And I think the reason we have been able to is because we actually put together a bill that is very simple, in that we are trying to improve the way that the U.S. Government makes decisions to impose unilateral sanctions and create a commonsense framework for the consideration of future unilateral sanctions policies.

I won't go into the arguments for that. I think you have already made those, in terms of the cost to our economy, but I also think, just recently, in last year in Congress, we acted exempt agricultural products from sanctions imposed against India and Pakistan after both countries conducted unauthorized nuclear testing.

I supported the legislation as did the overwhelming majority of our Congressional colleagues. And in a follow-up to that effort, just yesterday the Senate approved legislation that would exempt agriculture products from sanctions imposed on foreign nations. And about 2 months ago, the House Agriculture Committee unanimously approved similar legislation.

And why have we moved to exempt agricultural products from imposed sanctions? One reason is, is that we clearly understand that when we impose unilateral sanctions, it is U.S. farmers and U.S. interests which are harmed by that. And it is impossible to accept that the interests of U.S. agriculture is being harmed by the

imposition of unilateral sanctions, and not accept that any other interest and any other commodity that we are trying to export to a country that is subject to a unilateral sanctions is not also harming the interests of the businesses and the working men and women who are employed in the production of those products.

Our legislation really builds from the basic sentiment that is embraced by our colleagues in this. It is not something in any way that I think will restrict the ability of the Congress to impose unilateral sanctions, but what it will do will ensure that Members of Congress and the Administration will make a more informed decision before they vote to impose unilateral economic sanctions.

You know, we are simply asking the Administration and Congress to consider whether or not that the sanctions that we are going to impose will be effective, and also to consider what are going to be the costs to our domestic interests, including our economy.

We are going to have the testimony of the Administration, and Mr. Eizenstat, Under Secretary of State, is going to be testifying. I want to commend the Administration for their cooperation in working with us to try to craft a piece of legislation which they will whole-heartedly support. And I am confident, at the end of the day we will get there.

I would also like to point out that we have already tried to address their concerns by increasing the flexibility that this legislation will provide to the President. We are modifying that to provide at least a 45-day advance notice on contract—in contract, the provisions.

And there has been some concern by the Administration that we need to have parallel disciplines between—for Congress as well as the executive branch. And I would say that we are trying to do that also, but I think we all have to recognize that the Constitution imposes some restrictions that can never be overcome. And, quite frankly, some of the concerns of the Administration that Congress always has the ability to amend legislation is true. And it is not something that this legislation or any other will be able to, you know, hold future Congresses to not have the authority which is vested in them by the Constitution.

But we have tried, I think, to ensure that both Congress and the executive branch will have to maintain similar disciplines. And also, some of the concerns of the Administration as related to whether or not the process and the public comment period is going to send—give too much time for a nation that we are considering imposing a sanction on to respond.

We are also, I think, interested in amending the legislation to ensure that the 45-day advance notice provision does not apply to asset forfeitures.

So I think, as long as we maintain, I think, a very constructive dialog with the Administration, we will have the ability to put together a piece of legislation that will ensure that we have a unilateral economic sanctions policy that will be imposed when it can be effective, but will also do—will only be imposed with the Members of Congress having the full knowledge and understanding of what the impacts will be to the domestic interests of the United States.

[The prepared statement follows:]

**Statement of Hon. Calvin M. Dooley, a Representative in Congress from the State of California**

Chairman Crane, Ranking Member Rangel, and Members of the Committee, thank you for allowing me to testify in support of H.R. 1244, the Enhancement of Trade, Security and Human Rights through Sanctions Reform Act. I am pleased to join my colleagues, Chairman Crane and Phil Manzullo as the lead sponsors of this important legislation, and that the legislation has generated broad-based bipartisan support in both the House and the Senate.

Our message is simple. H.R. 1244 is designed to improve the way the U.S. government makes decisions to impose unilateral sanctions and to create a commonsense framework for the consideration of future unilateral sanctions policy.

In recent years the imposition of unilateral sanctions by the U.S. has exploded, with more than 75 nations currently subject to or threatened by U.S. sanctions. While unilateral economic sanctions have been used as foreign policy tools for many years, they have proven to be largely ineffective in achieving their intended goal.

In fact, too often the U.S. imposition of unilateral sanctions has caused more harm to our economy than to the economy of the nation the sanctions were intended to punish. The imposition of unilateral sanctions costs between \$15 and \$19 billion annually in U.S. exports and more than 200,000 high-wage jobs, causing serious damage to U.S. trade and competitiveness in international markets.

Last year, Congress acted to exempt agricultural products from the sanctions imposed against India and Pakistan after both countries conducted unauthorized nuclear testing. I supported the legislation, as did the vast majority of our congressional colleagues. Yesterday, the Senate approved legislation that would exempt agricultural products from sanctions imposed on foreign nations. The House Agriculture Committee has approved similar legislation. And why have we moved to exempt agricultural products from imposed sanctions? One reason is because we don't want U.S. farmers to suffer adverse economic impacts by losing access to important foreign markets. Our legislation builds on the basic sentiment that has been embraced by an overwhelming majority of our colleagues with regards to agricultural products, and simply argues that before imposing unilateral sanctions, Members of Congress should have access to basic information, including the economic implications of unilateral sanctions for all sectors of our domestic economy.

Under our sanctions reform legislation, before sanctions could be imposed by either the Congress or the President an analysis of the anticipated impact of sanctions to U.S. economic, foreign policy and humanitarian interests would be required. The Congressional Budget Office would also be required to analyze the economic impact that proposed sanctions would have on American workers, farmers and businesses.

Our current sanctions policy is hurting U.S. competitiveness in the global marketplace and harming U.S. workers and businesses more than the country targeted by the sanctions. When Members of Congress and the Administration consider the imposition of unilateral sanctions, we need to have a sound decision-making process to ensure they have relevant economic data. Our legislation would create a type of cost-benefit analysis process to ensure that Congress and the Administration understand the impact and efficacy of proposed unilateral sanctions.

The sanctions reform legislation would also establish an annual review of all existing sanctions and their effectiveness in addressing foreign policy goals, and would exclude food and medicine exports from future U.S. sanctions.

Let me be clear. Our legislation would not eliminate the imposition of unilateral sanctions as a foreign policy tool. We agree that, in some cases, sanctions can be a useful foreign policy tool. All we would require under this legislation is for members of Congress to receive the information necessary to make an informed decision.

We need a common sense approach to unilateral sanctions. The Enhancement of Trade, Security, and Human Rights through Sanctions Reform Act seeks to restore an appropriate balance to U.S. sanctions policy and to ensure that we apply a common sense framework when consider the imposition of future unilateral sanctions.

Thank you again for allowing me to testify before you today. I look forward to working with members of this committee to advance this important legislation.

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Chairman CRANE. Thank you, Cal.

And I apologize to you, Earl. I think I called you Adam. But Earl Blumenauer is our next witness to testify.

**STATEMENT OF HON. EARL BLUMENAUER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON**

Mr. BLUMENAUER. Thank you, Mr. Chairman. And I appreciate your leadership and the momentum that has been built on the Lugar-Hamilton legislation of the prior session. As Congressman Dooley mentions, there are more people moving forward.

I think it is a realization that people have that difficulties, not unlike what we are having with the bombing campaign in the Balkans, blunt instruments of force often don't work as planned.

Similarly, blunt instruments of unilateral sanctions often end up bruising ourselves more than those that we are trying to punish. And I applaud the Committee and the sponsors of this legislation for taking a step backward to reassess exactly what we are trying to accomplish.

As the chairman mentioned, there is significant economic impact that is associated with these activities, and yet there is persuasive evidence over the last 20 years that only a fraction, perhaps one-fifth, of the sanctions initiatives that we have applied have come anywhere near reaching their intended goals.

The examples that have been referenced here of what happened with India and Pakistan, the threat of sanctions did not deter the behavior that we were concerned about. And yet, instantly, after there was the threat of the sanctions being implied—being applied, we had the spectacle of the U.S. Congress rushing to reverse that pattern of behavior.

The example of Cuba is often cited as perhaps one of the most stark examples of the failure of a sanctions policy, where there is evidence that despite over 40 years of sanction, that Fidel Castro, the object of our frustration, anger, and scorn, has, if anything, been strengthened by our opposition. Virtually everyone in the rest of the civilized world acknowledges that it is sort of a goofy policy.

And many people in this Congress and in our government acknowledge that we have a policy that is sort of trapped in amber, not being able to move our objectives forward. Yet we are trapped, enmeshed in a pattern of established politics, ethnic and partisan activities, where we are the victim of our sanctions policy.

We need to establish these facts before we apply sanctions. We want to know when we ought to apply them; we want to judge their impact; and we want to know when it is time to stop and declare victory or admit defeat.

I have had the privilege of meeting with parliamentarians from other developed countries who have established very thoughtful approaches to allow their country to answer these fundamental questions, the same way that H.R. 1244 would allow us to do in this country.

The discussion is important not just for the future of the American economy, but it is even more important for our foreign-policy objectives. The specter of our not being able to respond in a timely and thoughtful fashion consistent with our real-world objectives does not strengthen our foreign policy, it, indeed, weakens it.

At a time when we are seeing the limited results of military action, we should do everything in our power to strengthen our other tools. We owe it to our armed forces, to our constituents, to our-

selves to make sure we have the most effective foreign-policy tools available and that they are used in a thoughtful fashion.

I believe there is no more important tool that we are going to discuss in this Congress than being able to revise and reform our sanctions policy. And I think it may, indeed, set a pattern for what Congress should be doing in terms of a deliberate fashion that could have impacts in other areas of policy as well.

I commend you for your leadership in having this hearing, hope that you are able to take rapid and effective—a positive action, and look forward to supporting you in any way that I can.

[The prepared statement follows:]

**Statement of Hon. Earl Blumenauer, a Representative in Congress from the State of Oregon**

As evidenced by the difficulties we are having with our bombing campaign in the Balkans, blunt instruments of force often don't work as planned.

Similarly, the blunt instrument of unilateral sanctions often ends up bruising ourselves more than those we are trying to punish.

It is time for us to take a step back and reassess our thinking about how we can apply our sanctions policy that can be more in tune with what actually happens in the world.

As half the world's population is currently subject to some sort of sanction on the part of the United States, it is estimated that only one-fifth of the sanctions we have applied in the last 20 years achieved their intended goals.

These actions carry a real economic price. Sanctions cost upwards of \$20 billion per year in lost opportunities, which translates into a hundreds of thousands of lost American jobs in the export sector, often among the highest paying. Is this a price we want to pay to achieve our goals, and is it the best way to pay it?

There is persuasive evidence that unilateral sanctions simply do not work. The threat of sanctions not only failed to deter the nuclear tests in India or Pakistan, but its failure would have severely punished wheat farmers in the Pacific Northwest if Congress had not acted quickly to grant a waiver authority to the President.

The example of Cuba is perhaps one of the most abject failure of sanctions, where we have imposed them on a unilateral basis for more than 40 years. Despite this, Castro continues to thrive and, in fact, is perhaps strengthened by our opposition to his regime.

We need to establish three facts before we apply sanctions: (1) when to apply them, (2) how to judge their impact, and (3) when to stop. I have met parliamentarians from other developed countries who have established very thoughtful approaches that allow their countries to answer these fundamental questions. The best way to guarantee these criteria are met in this country is to pass the sanctions reform bill that's before this committee.

This discussion is important for the American economy, but it is even more important for our foreign policy objectives. A rational approach to sanctions will make our foreign policy much more effective in the long-run, while minimizing the impact on the American worker, consumer and taxpayer.

At a time when we are seeing the results of military action, we should do everything in our power to strengthen our other tools. We owe it to our armed forces, our constituents, and ourselves to make sure that we have the most effective foreign policy tools available and that they are used in a thoughtful fashion.

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Chairman CRANE. Thank you very much, Earl.  
And now our final witness, George Nethercutt.

**STATEMENT OF HON. GEORGE R. NETHERCUTT, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON**

Mr. NETHERCUTT. Thank you very much, Mr. Chairman and Members of the Committee. I am delighted to be here with my colleagues to testify in support of H.R. 1244. I am happy to be a co-

sponsor of it. I think it is a fine piece of legislation. I hope this Committee will move on it very quickly.

I am aware that H.R. 1244 looks ahead, and I think we must do that as we analyze the American sanctions policy as it relates to our trade policy. But I also think it is important to look back and see what we might do in the present tense to change our policy currently.

I have introduced, Mr. Chairman, a bill called H.R. 212. It is the Freedom to Market Act. And I come from a region of the State of Washington that is critically dependent on exports for agriculture commodities and other products. And so what H.R. 212 does is look to remove current unilateral sanctions with the hope that we can increase our exports of agriculture commodities. It also covers the distribution of medical supplies—food and medicine, essentially—to these countries on which we have placed unilateral sanctions.

I think the cruelest thing we can do is not only to deny our farmers the opportunity to export, but we deny people who are on the other end of that export of food and medicine and the opportunity to benefit from the kinds of products that we can provide and the relationships that we can develop with these countries, even though we may disagree with these countries that are currently sanctioned in terms of their foreign policy objectives and their forms of government.

But yet, I think it is a humanitarian effort if we can, as the chairman wants to do, lift these sanctions and increase commerce. I think it is good for our country and it has potential to be very productive and beneficial to these countries that we currently sanction in terms of exporting freedom.

The bill that I have introduced, and these I think would be covered, certainly, by your measure as well, Mr. Chairman, cover the countries of Iran and Iraq, Libya, Sudan, North Korea, and Cuba. They aren't friends of ours, but I think that prohibiting the sale of food and medicine weakens these regimes—I should say it gives the potential to weaken these regimes—if they are exposed to the kinds of relationships that we might develop on the issue, within the limited issues of agriculture and medicine.

Under Secretary Eizenstat, I believe, will testify here today or later, has said that the funds spent on agriculture commodities are not available for other less desirable uses. So, when the Clinton administration lifted sanctions on Sudan and Libya and Iran, I think that was a good signal. It still, I believe—provides impediments to the clear need to comprehensively lift sanctions, but it is a good start.

And so I applaud the Administration for doing what it has done so far. With regard to the agriculture community and the consequences of sanctions, the evidence is clear that if we did lift sanctions on these countries on which we currently have sanctions, that would mean the possibility of a \$6 billion market for our farmers, for our agriculture exports, to say nothing of the humanitarian potential that would come from dealing with these countries from the export of medical supplies.

So I think your bill is a good one, Mr. Chairman, and I do have a statement for the record that I hope could be included in its entirety, but I am here to support you and will continue to urge that

sanctions be lifted, and that we continue to study it, for it is bad policy.

On the Appropriations Committee on which I serve, just last week on the agriculture bill, we had a very good debate in the full Committee of Appropriations on the agriculture bill on lifting sanctions. It was a narrowly-drawn measure, but Democrats and Republicans were both for and against for different reasons. It was a wonderful vote and a wonderful debate.

And it failed 28–24, I'm sorry to say, but we will be back another day. And we will be back not only on supporting H.R. 212 but supporting your measure, and every opportunity, I certainly intend to do so.

So thank you for holding this hearing and for allowing me to testify with my very able colleagues.

[The prepared statement follows:]

**Statement of Hon. George R. Nethercutt, Jr., a Representative in Congress from the State of Washington**

Mr. Chairman, Members of the Committee, thank you for the opportunity to address the use and effect of unilateral trade sanctions. I appreciate the work you have done on H.R. 1244 this year and I am pleased to be a cosponsor of that important legislation which will provide a clear mechanism for the consideration of future sanctions. But while that legislation looks forward to preventing future unintended consequences of sanctions, I believe that Congress has a responsibility to also correct the wrongs of our present sanction policy.

I have introduced H.R. 212, the Freedom to Market Act, and it serves as an important complement to H.R. 1244. My legislation would look back to those sanctions that are particularly burdensome and indefensible—those on food and medicine—and prohibit all such unilateral sanctions, subject to a national security waiver from the President. This legislation merely allows our farmers to have equal access in markets where our allies have gladly replaced us as a supplier of food.

H.R. 212 would lift sanctions on such countries as Iran, Iraq, Libya, Sudan, North Korea and Cuba. While these states may not be friends of the United States, we should discard the illusion that prohibiting the sale of food and medicine weakens these regimes in any way. As Undersecretary Eizenstat has said, funds spent on agricultural commodities are not available for other less desirable uses.

I was pleased to see the Clinton Administration's tacit endorsement of such legislation in the recent dramatic shift in economic sanctions policy. The details are still being finalized, but some sales of food and medicine to Iran, Sudan and Libya will now be permitted. But even as this is a move forward, it is very slight progress, for the Office of Foreign Asset Control will still review sales to these states on a case-by-case basis. Agricultural exporters seeking to develop a long-term relationship will be hard pressed to do so if the bureaucracy of the Treasury Department must consider each and every sale.

A recent CBO study on this issue concluded that sanctions have had a negligible effect on the overall U.S. economy. I question that conclusion but can testify to the fact that specific sectors of the economy feel very acutely the effects of sanctions. The agricultural community is particularly reliant on exports and smaller international markets mean lower prices for our producers.

In 1996, the untapped agricultural market in unilaterally sanctioned states was worth more than \$6 billion according to USDA, and the demand touches every U.S. agricultural sector, with a potential for sales of corn, rice, wheat, vegetable oils, meat products, sugar and milk. The enormous market potential was demonstrated following the recent Presidential decision on Iran sanctions, allowing an American exporter to bid on a \$500 million sale of wheat and sugar. Similarly, last year, when the Congress passed legislation lifting sanctions on Pakistan, our wheat farmers were rewarded with a substantial sale. These markets are particularly significant when one looks at severely depressed prices throughout commodity markets. A week ago Congress approved an emergency spending measure for farmers, but I believe that simply expanding the available export market will help to make such aid less necessary.

Beyond the immediate costs of lost sales due to sanctions are the opportunity costs. The President's Export Council concluded that unilateral sanctions create advantages for foreign competitors, magnify uncertainty about the availability of U.S.

goods and raise questions about the reliability of our suppliers. Wheat farmers in my district are still feeling the consequences of the short-sighted grain embargo of the Soviet Union in 1980, as the U.S. has yet to reclaim the market share we once held. Our agricultural competitors are consistent in not sanctioning food and buyers seeking stable supplies are less likely to buy from the United States.

I would also point to an important and little realized consequence of our sanctions policy. Single-desk exporters in Canada and Australia can presently take advantage of lessened competition brought by the removal of U.S. traders to charge higher-than-prevailing market rates. Competitors can then underbid the U.S. in other foreign markets, where the U.S. legally can try to compete. In effect, our sanctions policy denies our farmers access to both markets.

It should not be the policy of the U.S. government to deny sales of food and medicine to any country. A growing recognition of the significant economic and humanitarian costs of our policy is leading Members to reevaluate such sanction. Last week, the House Appropriations Committee voted on an amendment to repeal such sanctions and this week the Senate Agriculture Committee passed a bill to the same effect. I appreciate the work and attention of the Members of this Subcommittee on this important issue and thank you for the opportunity to testify this morning.

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Chairman CRANE. Well, we thank you, George. And your written statement will be made a part of the permanent record.

And I want to express appreciation to all of you. It's not a Democrat or Republican issue; it's what is in the best interest of this country. But it is also what is in the best interest of some of our trading partners.

For example, who benefited from the sanctions against Fidel Castro? Fidel Castro.

And we were the ones that got hurt by that, coupled with the working Cuban people. They are the ones who have paid the price for it. And I would hope that we would give more consideration before jumping to one of those immediate responses to rogues throughout the world.

Let me ask you guys a question: Should the President have the flexibility to tailor sanctions to meet the intended goal, or do you think Congress should establish some clear guidelines on the sanctions to be imposed?

This question is for all of you.

Mr. NETHERCUTT. Well, let me start to say I think the Congress should establish a policy. And again, I will be a little self-serving in terms of H.R. 212. What we do is allow the President to reimpose sanctions if sales of food and medicine are deemed a national security threat. I think that is the kind of flexibility we want to leave the President, but I think Congress should establish the policy.

Chairman CRANE. Cal.

Mr. DOOLEY. I would just state that I think that we have, you know, struck an appropriate balance with giving the President the flexibility. The real question would be, you know, whether it is a national-security issue or national-interest issue and what is the definition between those two to give the President the adequate authority.

The administration has expressed some concerns in the past that under a national security that they might not have adequate flexibility. But I would almost, you know, ask the Administration, of any unilateral sanctions that were imposed by the Administration



over the past 20 years, which one of those would not have fallen under the national-security exemption and waiver that we have included in the legislation.

And it is from my assessment, none would have—all of them would have been under that waiver authority that is included in the legislation. But I know Senator Lugar has been interested. We have been communicating with the Administration. You know, there needs to be, you know, further consideration given to that. You know, I am willing to do it, but I also think we need to be honest with ourselves too and really look back from a historical perspective and see just when would we have handcuffed the Administration.

Chairman CRANE. Thank you, Cal. Earl.

Mr. BLUMENAUER. My strong personal bias is that we ought to be dealing with broad guidelines. As much respect as I have for the institution, what I have seen is I do believe that the more surgical and precise efforts ought to be left to the Administration. We get in trouble in a whole host of ways when we try and go beyond our ability to have broad guidelines.

And I come down firmly in terms of establishing the goals and direction, but not trying to go too far. I think we bite ourselves.

Chairman CRANE. Well, I couldn't agree with you more. I mean, imposing sanctions on the sale of military goods, that's one thing, but especially in the critical, basic areas, like food and medicine, those are essential. And you don't want to cut them off. And, ideally, you don't want to cut off more than that because there are opportunities for those folks as well as here. And you can't blame the people always for a tyrant's behavior.

Mr. Levin.

Mr. LEVIN. Well we are kind of re-starting the dialog. So let me if I might just make a couple of points, and then perhaps we should move on. We'll have plenty of time to talk about this back and forth.

Two points. I agree very much we should re-examine our policies regarding sanctions, trade sanctions. Indeed, as Mr. Crane knows and others, I am in favor of looking at all of our trade policies in a fresh way. And I hope everybody will join in doing that and not limit it to the issue of trade sanctions.

Second, I would urge that we not oversimplify this because I think if we do, there won't be a fruitful debate. It will kind of polarize people right at the beginning. In that regard, I would point to, for example. If this becomes an issue revolving around our policy vis-a-vis Cuba, I am not sure we will have a very illuminating discussion. I don't think you can look at our policies vis-a-vis Cuba only in terms of whether Fidel Castro is still there. I am sure that proponents of the sanctions would point to the fact that every other nation in Latin America is today a democracy.

And I am not suggesting that flows strictly or perhaps even essentially from our policy vis-a-vis Cuba, but I just caution that I think there is a danger in just zeroing in on Cuba and oversimplifying and saying Cuba, Castro is still there, therefore we never should have imposed sanctions.

I also think we need to take a balanced view as to the history of sanctions, including how they worked in relationship to South

Africa, which became multilateral sanctions. But if it is going to become an argument whether sanctions ever work, I don't think it will be a particularly productive discussion.

I do think we need a more comprehensive look at the whole history of imposition of sanctions, and look at their failures in many, many respects as well as in some cases where they may have worked.

So, your testimony has helped to re-ignite this discussion, and I simply want to urge that we adopt an ability to take a fresh look at all of our trade policies, No. 1, and No. 2, we do avoid overstating or oversimplification because trade issues become so polarized usually. And I don't think this issue deserves that, it deserves better.

Thank you, Mr. Chairman.

Mr. DOOLEY. Mr. Chairman, if I may just briefly respond. Mr. Levin, I agree with you whole-heartedly, and I want to make sure that you appreciate the legislation that we are talking about today is only prospective and that we realize that that would be the appropriate focus now, at this time, to look in terms of how do we impose a new process that gives Congress more time to consider more information on the imposition of unilateral sanctions as we look forward.

And we have thus not dealt with looking back at existing sanctions that are put in place. And, in large part, out of, you know, sensitivity to some of the, you know, considerations and the real strong convictions that many of our colleagues feel with Cuba and other countries that we have imposed sanctions on.

Mr. LEVIN. Let me just say, I think the effect would be prospective, but inevitably we are going to look backward to judge what would be a good future policy. And I just think when we do that, for example, and I will finish, I think if the proposed legislation were in place, had been in place several decades ago, I am not sure our policy vis-a-vis Cuba would be any different.

But I don't want to focus only on that. I am just suggesting that we take, indeed, a comprehensive look at this and not choose up sides automatically as too often happens on trade issues. We need a more broad, broader, a more comprehensive intelligent discussion.

Chairman CRANE. Well, let me add just a footnote. Multilateral sanctions can be, in fact, very effective. The question is the efficacy of imposing unilateral sanctions when the rest of the world is out there ready to fill that void.

Mr. LEVIN. That is a problem, but sometimes multilateral sanctions follow unilateral sanctions. But I agree, unilateral sanctions have the thorniness that often other countries simply step into the vacuum that we have left. And that is surely a consideration.

Chairman CRANE. Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman. And it is great to welcome you gentlemen to this Committee. This hearing today is about something that has concerned a lot of us over the last few years. And Chairman Crane has been very helpful in convening people who have focused on this issue to try to explain some very complicated parts of this whole sanctions issue.

I would like to ask Mr. Nethercutt, who is from my State of Washington and did such great work on that sanctions issue when something like a third of the wheat from our part of the country was precluded from being sold in Pakistan and India, when that unilateral was called by the President. In your written testimony, I want to just read something you have written and maybe ask you to expand on this. You say:

I would also point to an important little realized consequence of our sanctions policy. Single-desk exporters in Canada and Australia are currently taking advantage of lessened competition brought by the removal of U.S. traders to charge higher than prevailing market rates, competitors can then underbid the United States in other foreign markets where the United States legally can try to compete. In effect, our sanctions policy denies our farmers access to both markets.

And I wonder if you would take a minute or two and expand on this please.

Mr. NETHERCUTT. Well, thank you for asking. That is true, especially if it is agriculture because you will have Canada, who can sell peas, for example, to Cuba, charging a higher price for peas than the market would bear, but they can sell peas to Cuba, for example, and our farmers cannot. And so therefore, they get a higher price back from Cuba for their peas and then when we bid on a sale of wheat, for example, in Pakistan, which we have had a wonderful relationship with over the years in terms of a reliable trading partner, they can underbid us there.

So they make money in Cuba in order to underbid us on a commodity sale that we are competing with in a country that is not sanctioned. So we can't sell our peas to Cuba and compete there, and then we are competitively disadvantaged in Pakistan, for example, on another commodity.

So it is a vicious cycle for our farmers, and they are terribly frustrated. They want to be able to market around the world agriculture products and be able to compete with other countries that are not sanctioned by their countries and their governments.

Ms. DUNN. Thanks very much, Mr. Nethercutt.

I wanted to ask all you gentlemen—right now, we are having a big debate over trade with the PRC, and we have had some problems lately. This has been a long and complicated relationship. Lots of rocks in the road.

But many of us, and I am included in this, believe that we can de-couple the issues of trade, which is a business relationship, with the other problems that we might be having with that nation, like human rights violations and intellectual property piracy and the straits around island of Taipei for example, and the most recent bombing incident, and, obviously, the security risks.

If we can de-couple trade from the rest of our relationship with China, why can't we also do that with a country like Cuba?

Mr. DOOLEY. Well, I would, Ms. Dunn, suggest we should. Is that the policy, every time this country historically has engaged in a policy of economic engagement, which has facilitated the development of a particular economy, which has resulted in an increase in per-capita GDP that has, with almost without exception, been associated with greater personal freedoms, whether it be human rights, whether it be religious freedoms, and greater movement toward democracy in that country—and I think we see, time and time exam-

ples of that. And thus maintaining a policy of economic engagement with China is, I think, in the longer term interest of the United States in building a relationship that actually could have greater influence on the military threat that they might pose.

And I would also suggest a policy similar—of that type of policy with Cuba would also manifest itself in greater progress toward human rights and greater democracy in Cuba.

Mr. BLUMENAUER. I only hope that people can be able to separate those issues as you describe with China. I am not quite as sanguine, and I am actually very apprehensive about what is going to happen in this chamber in the next couple of months. But I agree with your assessment.

Mr. NETHERCUTT. Let me just quickly add, and I agree basically with these witnesses' testimony. Cuba is a little different because China has some economic capability. I don't believe Cuba does. In other words, I don't know that we would want to grant Cuba as we do Pakistan, for example, some credits under our USDA, current USDA policy as it relates to agriculture because that is probably a very bad credit risk.

And Cuba, to my knowledge, doesn't have much in the way of capital in order to buy peas from us particularly.

So, notwithstanding the Canadian experience that I have mentioned, Cuba, it seems to me, is a little different in terms of their economic viability relative to China.

But conceptually I think it is a very hard case to distinguish. The idea that Cuba is somehow different than the other countries on which, with which we would like to do business, which are sanctioned, then I think that de-coupling makes some sense.

Mr. LEVIN. Let me just finish up, Mr. Chairman, if I may. Then what is the answer with Cuba, where all of us want to strangle a terrible dictator who has brought horrible burdens on his people since 1959? How do we move to end that regime? Do we move to end it? And, if so, what ought we to be doing if we were not using unilateral sanctions?

Mr. BLUMENAUER. Well, I think time is our best ally there in terms of the aging of Mr. Castro and to the extent that it is personalized. But it just seems to me that we ought to be able to have the courage as a country to have the faith in the commercial relationship to be able to build on it.

I just agree, identify with what Mr. Dooley said in terms of the force of the economic interaction has worked marvelously, and I would hope that we would have the courage as a country to try to advance it.

Mr. NETHERCUTT. Let me just say, I think, perhaps, evidence that relief from sanctions would provide relief from the regime is the best evidence that we could have. As Earl says, we could wait and then deal with the next generation of leadership in Cuba, but to the extent that there is an opportunity to show that lifting sanctions and having some economic relationship would weaken Castro, then I think it is in our best interest to explore that opportunity.

Mr. DOOLEY. I want to just add that, you know, the most potent weapon the United States has in expanding democracy throughout the world is not our military might, it is, in fact, our economic might. And lifting the unilateral sanctions we have on Cuba, you

know, engaging them economically, I think is going to give far greater returns in terms of securing greater democracy in Cuba, greater personal freedoms for the citizens in Cuba.

And historically, you cannot demonstrate hardly any example where this hasn't been true in the past. And I think we have a policy, foreign policy with Cuba, is wait until Castro dies, and I don't think that is the most responsible policy we should have as a country.

Chairman CRANE. Mr. Rangel.

Mr. RANGEL. Let me thank you, Mr. Chairman, for focusing on the effectiveness of unilateral trade sanctions. And I want to thank my colleagues for the attention they have given this controversial subject matter. I don't really see how we can determine what policy we would like to see in the future without reviewing existing and past policies, especially that as it relates to Cuba.

If we are trying to correct and give guidance to our President, certainly we have to be able to focus on where we have a unilateral sanction that has been a total disaster and has not only not toppled a communist government but has brought us embarrassment throughout the entire international community, besides, of course, loss of revenue.

It would seem to me, that as we review this, that we should be concerned about the health of children that are denied food or the sick that are denied medicine.

And being a Korean veteran, I cannot for the life of me see how we can have more hatred for the dictator in Cuba than the North Koreans and the North Vietnam dictators, and, certainly, the brutality that has been displayed by the communist Chinese.

I think that review of Cuba is long overdue, and they cannot possibly be considered a threat to our national security. And we have to be very sensitive about the emotional feelings of our colleagues always, but not at the expense of our national security.

So I think it is good, Mr. Chairman, that you once again provided the leadership on this subject matter, and our colleagues would take the time to prepare testimony and participate. And I hope that this is just the beginning, not just in legislation but in trying to encourage this administration to change our policy toward Cuba.

Thank you very much.

Chairman CRANE. Thank you, Mr. Rangel. And next is Mr. Becerra.

Mr. BECERRA. Mr. Chairman, thank you and thank my colleagues for taking the time to make some constructive statements on this issue. I think most of the questions I would have been interested in asking have been addressed. I will only make one additional comment.

With regard to Cuba—such a dynamic issue—and it involves much more than just the politics or even the economics of these trade sanctions we have had on the country for quite some time. But it certainly is a case in point of why legislation as you posed probably carries a great deal of weight and may have some chance in the future of succeeding if we work it the right way.

Certainly the issue of unilateral sanctions has to be addressed, and I would hope that we are able, as Mr. Levin said, to try to remove some of the clutter in the debate and focus on really the

legitimate questions about how we use our economic leverage to try to pursue policies. And certainly among those questions will have to be how we try to engage other countries to try to join with us, if indeed we ever get to the point of believing sanctions of some sort can work.

I think it is becoming very clear to most that multilateral sanctions can work. It also is becoming very clear that unilateral sanctions are very difficult to enforce and, certainly, when it is done at the expense of a lot of our own sectors of our society and economy, it ultimately damages us probably more than it does the country we are trying to sanction.

So I appreciate all the comments that have been made by my colleagues, and, Mr. Chairman, I would yield back the time.

Chairman CRANE. Mr. Herger.

Mr. HERGER. Thank you, Mr. Chairman. I want to thank each of you, each of my colleagues, for your testimony, for the work that you are doing, which I think is very positive, very constructive. This is a debate that has to proceed here in this nation, and I want to lend my support to what you are doing and, again, commend you and thank you.

Chairman CRANE. And Mr. Neal.

Mr. NEAL. Just a quick comment: I had a chance to travel to Cuba with the Pope, and Mr. Rangel was there as well. I think that the argument that is being made by the panel, particularly by Mr. Dooley, is right on target.

Chairman CRANE. Well, let me express appreciation to all of you for your efforts. And we still have our work cut out for us, but continue down the path. We are headed in the right direction, and we are getting increasing support on a bipartisan basis constantly.

So thank you, gentlemen. And you are now excused, and I would like to invite our next witness to the dais, the Honorable Stuart Eizenstat, Under Secretary of State for Economic Business and Agricultural Affairs at the U.S. Department of State.

And notwithstanding the fact that we are temporarily adjourned over on the floor, we don't know exactly what the schedule holds. So if you could try and condense your verbal statement to in the neighborhood of 5 minutes, any printed statement will be made a part of the permanent record.

Please proceed.

**STATEMENT OF HON. STUART E. EIZENSTAT, UNDER SECRETARY OF STATE FOR ECONOMIC, BUSINESS, AND AGRICULTURAL AFFAIRS, U.S. DEPARTMENT OF STATE**

Mr. EIZENSTAT. Thank you, Mr. Chairman, and I very much appreciate your holding this hearing and your leadership on this issue.

Properly designed, implemented, and applied as a part of a coherent strategy, sanctions are a valuable tool for enforcing international norms and protecting our national interests. At the same time, they are a blunt instrument. They are not a panacea, and they are not cost-free as your own Congressional Budget Office recently reported.

Indeed, used inappropriately, they can impede the attainment of our objective and come at a significant cost to business and agri-

culture, and to policy objectives of the United States. We believe that our use of sanctions should be governed by a number of common-sense principles.

First is effectiveness. We should have a realistic expectation that the sanctions measures will help in achieving their desired result, that is, changing the conduct of the target country. Ineffective sanctions send a message of U.S. irrelevance, not U.S. resolve.

Second, unilateral economic sanctions should not be a first resort. We should first aggressively pursue available diplomatic options to change the conduct of a country in question. We should turn to sanctions only after other options have failed.

Third, sanctions are most effective when they have broad, multilateral support. The history of our use of unilateral sanctions shows that in the majority of cases, they failed to change the conduct of the target country or, at best, were a contributory but not necessarily decisive factor in securing the changes of behavior we seek.

In contrast, multilateral sanctions exert more international pressure and do less damage to our own interests because other countries and companies from other countries are involved.

Nonetheless, there will be instances when our diplomacy will not succeed and when we cannot build a multilateral regime and we must be prepared to act unilaterally.

Fourth, flexibility of application is absolutely essential if we are to use sanctions effectively. When we do act, Mr. Chairman and Members of the Committee, unilaterally, we should do so with a cost-gain analysis, with making sure that effectiveness is likely.

Flexibility is, again, absolutely essential. Congress and the executive branch share constitutional responsibility for shaping our trade and foreign policy, but it is the President who is responsible for day-to-day conduct of that policy. Sanctions legislation should therefore set forth broad objectives but allow flexibility to respond to changing and evolving situations, and give the President the necessary authority to tailor specific U.S. actions to meet our foreign policy objectives.

Ultimately, only the President can weigh all the issues at stake and tailor our response to a specific situation.

We support a single national-interest-waiver standard applicable to all future sanctions legislation, and Mr. President—Mr. Chairman, this is perhaps the single most important feature that we would insist on in any legislation.

Our experience with the Glenn amendment sanctions, the Libertad Act, and the Iran-Libya Sanctions Act underscores the importance of flexibility in achieving the purposes of those Acts.

For example, with Helms-Burton, the exercise of our title III waiver authority led the European Union to tie concrete improvement of its relations with Cuba to fundamental changes in respect to human rights and political freedoms there. And they have since spoken out much more forcefully in support of democracy and human rights.

With these general principles in mind, we have suggested an approach to sanctions reform that we believe would be productive in achieving the improved discipline on the use of sanctions by Congress and the executive branch. Many of our views are close to

those in H.R. 1244, but we have some important differences with those bills.

We have proposed appropriate and flexible guidelines, many of which would be taken from the provisions of your bill, Mr. Chairman, to govern our use of discretionary executive-branch unilateral economic sanctions. The executive branch is willing to consider appropriate guidelines that would apply to future imposition of sanctions under IEEPA as well as discretionary sanctions under future sanctions laws passed by Congress.

If I may now talk about some of the concerns we have. The Crane bill does not provide comparable constraints on Congress and the executive branch. Congress can always pass a change in its own rules or simply a law saying, notwithstanding any other provision of law, therefore, end any binding authority on itself. We believe there ought to be symmetry between what you yourself can impose on yourself and what you try to prescribe for the executive branch.

We believe that flexibility accompanied by national-interest waiver authority applicable to all future unilateral sanctions legislation is the single most essential element to make sanctions reform work. The President should be authorized to refrain from imposing or taking any action that would result in the imposition of any unilateral economic sanction and be authorized to suspend or terminate the application of such a sanction based on a national-interest determination.

Now your bill, in contrast, does say that it should be the policy of Congress that they should provide such national-interest waiver authority, but the bill we believe must go further and include a stand-alone provision allowing national-interest waiver authority to apply to all future unilateral sanctions legislation unless Congress acts specifically to exclude it.

We agree that Congress should also have a role to play in this decision. Thus we have suggested an advance notification requirement before a national-interest waiver authority is exercised by the President, and then the inclusion of an expedited procedure to allow Congress to pass legislation disapproving any waiver authority within a certain number of days.

Many of the restrictions in H.R. 1244 are quite inflexible. It is critical for us that each procedural constraint in the bill should permit discretion beyond just procedural waiver authority. For example, the 45-day-notice provision, contract sanctity, sunset clause should all have discretion.

An example, with 45-day-notice provision, is that if this was done publicly, it would provide the target country or entity warning that we were going to try to impose a sanction or freeze an asset, giving them time to restructure their business and remove their assets from the United States.

So we would like to work with you to deal with these procedural hurdles, make them less inflexible, but critically, critically, critically, it is also important as title III of Helms-Burton has, as section 9(c) and 4(c) of ILSA have, that there be national-interest waiver authority on the sanction itself.

Your bill would also prohibit restrictions on the export financing support of provision of medicine, medical equipment, medical sup-



plies, food, or other agricultural commodities. In general, this is largely consistent with our April 28 announcement; however, that announcement indicated, and we would hope your legislation would build in, a provision that would allow the President under compelling circumstances not to permit this waiver.

For example, where the offending is using the import of food and medicine as an internal political tool, where the regime or its officials derive unjustified economic benefit, or where indeed we are engaged in armed conflict with that regime.

Here too, the President must be given the flexibility to tailor and use sanctions, including those on food and medicine, as appropriate in any particular circumstance, although, again, as we announced on April 28, we have changed the presumption so that food and medicine should generally not be used as a tool for sanctions.

We very much look forward to working with you, Mr. Chairman and Members of your Committee to craft an effective sanctions reform package in 1999. We likewise, as you and so many of your members have indicated, feel that it is time to look at this area and put more rationality into our unilateral sanctions regime.

Thank you very much, Mr. Chairman, and thank you for your leadership.

[The prepared statement follows:]

**Statement of Hon. Stuart E. Eizenstat, Under Secretary of State for Economic, Business, and Agricultural Affairs, U.S. Department of State**

Mr. Chairman, I was pleased to see that Congress will again examine the issue of sanctions reform. As you know I have testified on this a number of times including before the Ways and Means Committee on October 23, 1997, the International Relations Committee on June 3, 1998, the Lott Bipartisan Working Group on Economic Sanctions on September 8, 1998 and, most recently, the Senate Agricultural Committee on May 11. Various pieces of legislation have already been introduced in both the House and Senate on several aspects of our use of sanctions, most notably the bills introduced by Congressman Crane and Senator Lugar.

Our view is clear. Properly designed, implemented and applied as a part of a coherent strategy, sanctions—including economic sanctions—are a valuable tool for enforcing international norms and protecting our national interests. At the same time, sanctions are a blunt instrument. They are not a panacea nor are they cost free. Indeed, used inappropriately, they can impede the attainment of our objective and come at a significant cost to other U.S. policy objectives.

As you know, Mr. Chairman, we believe that our use of sanctions should be governed by a number of common sense principles. I first spelled out these principles in testimony before the Ways and Means Trade Subcommittee in October, 1997.

The first principle is a test in effectiveness. We should have a realistic expectation that the sanctions measures will help in achieving their desired result, changing the conduct of the target country. Ineffective sanctions do not send a message of U.S. resolve or U.S. commitment. Rather, they send a message of U.S. irrelevance.

Second, unilateral economic sanctions should not be a first resort. We should first aggressively pursue all available diplomatic options. In general, we should turn to sanctions only after other options have failed or have been judged inadequate or inappropriate.

Third, sanctions are most effective when they have broad multilateral support. The history of our use of unilateral sanctions shows that in the majority of cases they fail to change the conduct of the targeted country or, at best, are a contributory but probably not a decisive factor in securing the changes of behavior or policy that we seek. Multilateral sanctions in contrast maximize international pressure on the offending state.

Nonetheless, if we are unsuccessful in building a multilateral regime, and important national interests or core values are at issue, we must be prepared to act unilaterally. To maintain its leadership role, the United States must sometimes act even though other nations are not compelled to do so.

Fourth, flexibility of application is absolutely essential if we are to use sanctions effectively. The Congress and the Executive Branch share the responsibility for

shaping our foreign policy, but the President is responsible for the day-to-day conduct of that policy. Sanctions legislation should set forth broad objectives but allow flexibility to respond to constantly changing and evolving situations and give the President the necessary authority to tailor specific U.S. actions to meet our foreign policy objectives. Ultimately, only the President can weigh all the issues at stake at any given moment and tailor our response to a specific situation. We support a single national interest waiver standard applicable to all future sanctions legislation.

Our experiences with the Glenn Amendment sanctions, the Libertad Act and the Iran-Libya Sanctions Act underscore the importance of flexibility to achieving the purposes of those acts.

In the case of Helms-Burton, the exercise of Title III waiver authority led the EU to tie concrete improvement of its relations, specifically, the provision of development assistance, to fundamental changes in respect for human rights and fundamental freedoms in Cuba. The EU has spoken more forcefully in support of democracy and human rights.

The prospect of an amendment to Title IV that would authorize a waiver led the EU to agree to negotiate new disciplines on limiting investment in illegally expropriated properties, including in Cuba. The Understanding we reached with the EU on May 18, 1998, will establish for the first time multilateral disciplines among major capital exporting countries to inhibit and deter investment in properties which have been expropriated in violation of international law. These restrictions will discourage illegal expropriations and chill investment in Cuba, warning investors to keep “hands off.” This result would not have been possible had we not been able to hold out the possibility of waiver authority for Title IV. We believe that our success in agreeing with the Europeans on property disciplines merits that authority. Unless Title IV is amended to provide a targeted waiver authority, these important new restrictions on investment in Cuba will never go into effect, nor will the worldwide ban on investing in illegally expropriated property.

Similarly, the flexibility included in ILSA—the ability to decide whether to impose or waive sanctions—was central to our ability to advance the objectives of that law. In developing ILSA, Congress was motivated by its deep concern about the proliferation of weapons of mass destruction (WMD) and terrorism and expressed its deep concern about Iran. We used the Act’s waiver authority to help consolidate the gains that we had made with the EU and Russia on strengthening international cooperation to oppose Iran’s dangerous and objectionable behavior. It helped us avoid a major dispute with allies that would not have served the Act’s objectives and would have heavily strained our cooperation with our allies across the board.

With these general principles in mind, we have suggested an approach to sanctions reform that we believe would be productive in achieving improved discipline on the use of sanctions by both the Congress and the Executive Branch.

While many of our views are close to those in H.R. 1244 (the Enhancement of Trade, Security, and Human Rights through Sanctions Reform Act introduced by Representative Crane) and S. 757 (the Sanctions Policy Reform Act introduced by Senator Lugar), we do have a number of important differences with those bills.

We have proposed appropriate and flexible guidelines—many of which would be taken from the provisions of the Crane bill—to govern our use of discretionary unilateral economic sanctions. The Executive Branch is willing to consider appropriate guidelines that would apply to future imposition of sanctions under IEEPA as well as discretionary sanctions under future sanctions laws passed by Congress.

The Crane bill does not provide comparable constraints on the Congressional and Executive Branches of the government, notwithstanding its appearance to the contrary. However, Congress’s ability to amend the legislation, change its own rules, or to pass future legislation that takes precedence over it, for example, through “notwithstanding any other law” language, makes it less likely the bill would serve as a practical constraint on Congress. The fundamental principle underlying our approach is one of symmetry between the two branches—Congress, in short, should be no more prescriptive of the Executive Branch than it is of itself.

We believe that flexibility accompanied by national interest waiver authority applicable to all future unilateral sanctions legislation is the single most essential element if we want to make sanctions reform work. The President should be authorized to refrain from imposing, or taking any action that would result in the imposition of, any unilateral economic sanction, and be authorized to suspend or terminate the application of such a sanction based on a national interest determination.

The Crane bill, in contrast, provides only that it is the sense of Congress that any future unilateral sanctions legislation “should” provide national interest waiver authority. We believe that the bill must go further and include a stand-alone national

interest waiver authority that would apply to all future unilateral sanctions legislation unless the Congress acts specifically to exclude it.

We agree that Congress should also have a role to play in this decision. Thus, we have suggested an advance notification requirement before a national interest waiver is exercised and the inclusion of expedited procedures to allow Congress to pass legislation disapproving the President's decision within a certain number of days.

The bill would authorize the President to waive certain of its procedural constraints on Executive Branch use of sanctions (for example, requirement for 45 days advance notice in the Federal Register, prior consultation with the Congress, a public comment period, some of the reporting requirements) if he determines that it is in the national interest to do so. If so, the requirements would still have to be met within 60 days or the sanctions would automatically terminate even if the President had exercised the waiver.

Other requirements, including contract sanctity requirements, provisions for narrow targeting, and restrictions on food and medicine, would be waivable only in the case of actual or imminent armed conflict involving the United States. Some provisions would not be waivable under any circumstances.

Another section of the bill would provide "national security" waiver authority applicable to the so-called Glenn amendment to the Arms Export Control Act and certain provisions of the Foreign Assistance Act of 1961 and Export Import Bank Act of 1945.

As we have stated generally about authority to waive sanctions, we have also stressed that any constraints agreed upon should also be subject to a standard national interest waiver authority.

Let me turn now to the specific procedural and substantive restrictions the Crane bill would place on the Executive Branch, which apply both to the imposition of new sanctions under IEEPA and all future unilateral economic sanctions laws.

Many of those restrictions, given appropriate flexibility of application, contain ideas which we would support in principle. If, however, they must be applied in an inflexible manner, they could prove unworkable and extremely onerous to administer by any President, Democrat or Republican.

Let me cite just a few examples. The bill would require 45 days notice in the Federal Register before the imposition of any new unilateral economic sanction under any provision of law, whether or not the President has any discretionary authority to impose that sanction. It also would require a period for public comment prior to the imposition of sanctions. While such advance notice may at times be useful in sending a strong diplomatic signal to a target country, at the same time it would provide that country ample advance warning to restructure its business and other economic relationships with third countries, or to take other steps (such as stockpiling of potentially embargoed goods) to enable it to blunt the impact of the potential sanctions. Although the bill attempts to address some of our specific concerns about the impact of this provision with respect to financial sanctions, it does not adequately address our other broader concerns.

Establishing a presumption, where appropriate, in favor of advance public notice and the opportunity for public comment may indeed be a desirable goal. But requiring advance notice and an opportunity for public comment in all circumstances, or requiring the President to invoke a national interest waiver under circumstances when such advance notice would clearly be inappropriate is neither desirable nor workable.

The Crane bill also lays out a series of substantive requirements for sanctions imposed by the Executive Branch. The first of these is an assessment of whether the proposed sanction is likely to achieve a specific objective within a stated period of time. We agree that sanctions should not be employed unless there is some reasonable expectation that they will be effective in achieving their purpose.

Sanctions are only one of a mix of policy measures that are employed together, hopefully as part of a coherent strategy, to influence a target country. Even though a specific sanctions measure by itself may not cause a change in policy or behavior, it may be an important, even essential part of a broader policy mix. History clearly suggests that in the vast majority of cases, unilateral sanctions may be at most a contributory but probably not a decisive factor in securing the changes of behavior or policy that we seek. So it may be difficult to judge whether a sanctions measure by itself would be effective. At the same time, many of the reasons for which we impose sanctions—non-proliferation, environmental degradation, to combat drug trafficking, to combat terrorism, to encourage greater respect for human rights—are simply not time bound. As part of the principles on the use of economic sanctions that I laid out earlier, we clearly state that sanctions should be subjected to a test

of effectiveness and that they should be imposed only when there is a reasonable expectation that they will contribute to the achievement of their goal.

The Crane bill would also generally require that sanctions regimes provide for contract sanctity. Such a provision, while understandable, may also be similarly unworkable and counterproductive—for example, in dealing with front companies in the counter-narcotics area. When combined with the requirements for advance notice of intent to impose sanctions and an automatic sunset clause, they would simply encourage businesses and the target government to negotiate quick deals to get in under the wire and avoid the effect of sanctions. The President must have the flexibility not to provide for contract sanctity in a given situation if doing so would, for example, detract from the effectiveness of the sanctions.

Sunset clauses tied to time rather than performance may also often not be appropriate. As I have already noted, many of the purposes for which we may impose sanctions are long term. We should not give the targets of sanctions the ability to wait us out by imposing time bound sanctions in every instance. We have suggested instead that the President could annually review on specific sanctions measures and, depending on his review of the continued effectiveness of such measures, determine whether certain of them should terminate.

The Crane bill would prohibit restrictions on the export, financing, support or provisions of medicine, medical equipment, medical supplies, food or other agricultural commodities other than restrictions imposed in response to national security threats, where multilateral sanctions are in place, or where the United States is engaged in armed conflict.

In general terms, that provision is largely consistent with the President's April 28 announcement that the Administration will generally exclude agricultural commodities and products, and medicines and medical equipment from future discretionary unilateral sanctions regimes, and will extend that same principle to existing regimes where we have the discretion to do so. The President went on to note, however, that there may be compelling circumstances where this would not be appropriate: for example, where the offending regime is using import of foods and medicines as an internal political tool, where a regime or its officials derive unjustified economic benefit from such imports, or where we or our allies are engaged in armed conflict. The President must be given the flexibility to tailor and use sanctions—including sanctions on food and medicine—as appropriate in any particular situation.

In sum, if our policies are to be effective, we must work together—Administration, Congress, at the state and local level, as well as the business community, including NGOs—to see that our use of sanctions is appropriate, coherent, and designed to attract international support. We hope to work with key Congressmen and Senators to craft an effective sanctions reform package in 1999.

Thank you.

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Chairman CRANE. Thank you. And let me ask you a couple quick questions here. We are apparently going to be going back in earlier than anticipated.

Mr. RANGEL. I don't think so.

Chairman CRANE. You don't think so. Oh, OK. Insider trading information, Charlie?

Undersecretary Eizenstat, if we are unsuccessful in building a multilateral regime, we must be prepared to act unilaterally. To maintain its leadership role, the United States must sometimes act even though other nations are not compelled to do so. They have never been compelled to do so, but that goes back to the imposition of unilateral sanctions, does it not?

Mr. EIZENSTAT. Yes, sir. But there will be instances, for example, Burma is a case, the Sudan is a case, where we don't have broad-based unilateral sanctions, but where unilateral sanctions may state at least some moral interest.

Burma is also a case where Mr. Levin's point, and that is sometimes they lead to other countries taking action. The European

Union, for example, now has fairly broad-based sanctions with respect to Burma following our lead on unilateral sanctions.

Now again, no one feels more strongly than I do the limitations of unilateral sanctions. We simply are saying there may be instances where all other avenues having been exhausted, they still might be used. But that is where your bill comes in. When we use unilateral sanctions, we ought to subject them to a filter. Let's balance costs and gains. Let's look at whether they are going to be effective.

Let's not simply jump willy nilly into them.

Chairman CRANE. What criteria does the Administration use to determine the cost of unilateral sanctions it contemplates to the U.S. economy? And will unilateral sanctions lead to the desired changes in the behavior or policy of a targeted government?

I mean, you cited the Burma case in an example, but do you think there ought to be time constraints imposed? And if people aren't getting on board and it is an extension of simply unilateral sanctions, they ought to be re-evaluated?

Mr. EIZENSTAT. We think that there should be an annual review by the President of our sanctions to determine whether or not those in place are effective. And if they are not, then they shouldn't remain.

At the same time, to put an arbitrary sunset clause saying that at the end of 1 or 2 years they automatically remove sanctions is also not a good idea. The reason being, that sends a message to the target country or entity, whether it be the Taliban or whomever, that there is a time limit on how long the sanctions will last.

The key ought to be effectiveness. Are the sanctions still effective. And we would support the requirement for an annual review to look at those sanctions and make a report to the Congress on whether or not they are still effective and, if not, then they should expire.

Chairman CRANE. Well, except, that it seems to me that you could very hastily renew a period of sanctions against a country if you thought it was working.

Mr. EIZENSTAT. If necessary, but I think that you would lose an awful lot of traction in your foreign policy if you put sanctions on and off. Again, rather than having an arbitrary deadline, our feeling is, it is better for Congress to suggest to the executive branch, and the requirement for an annual review, and to report to you whether or not that sanction remains effective.

Chairman CRANE. And did I understand you correctly when you were talking about food and medicine, that permitting the export of food and medicine, if the recipient country is dispensing it, is inappropriate?

Mr. EIZENSTAT. We spent well over a year looking at the issue of food and medicine. And the President's April 28 decision is the result of that. In short, what we are saying is by and large, except for really compelling circumstances, like we are in war with the country, that using food and medicine as a tool of a sanction is counterproductive, in two respects.

First, it hurts our own agricultural interests and our own companies. Second, it gives the target country the opportunity to suggest that the United States is hurting the average citizen in that coun-

try rather than the regime. And, indeed, food and medicine often—one would be hard-pressed to find a dictator in any country who can't get a good meal on his table.

It's the citizens of the country who are most disadvantaged by having food and medicine deprived from them. So that is why the president has changed the presumption. Our presumption is that food and medicine should not be used as a foreign-policy tool. Starvation is not a legitimate foreign-policy tool except, again, under the most compelling circumstances.

Chairman CRANE. Compelling? Starving people?

Mr. EIZENSTAT. Yes. For example, if we are at war with the country, or if there is evidence that the food or medicine is being diverted for illicit or illegal purposes. But again, generally, it should not be subject to sanction.

Chairman CRANE. All righty. Mr. Levin.

Mr. LEVIN. Thank you. And thank you for your testimony. Let me just ask you to try to summarize what you feel are the key issues here because you have been a leader, as I read it and as I remember it in stimulating some further thought on these issues within the Administration.

And I think you are in favor, are you not, of trying to further rationalize our approach to this issue, to try to develop some guidelines? I mean, that is an accurate description, right, of where you come from?

So, I mean, you have credibility to try to help us focus on what the issues are—the three or four basic issues—so we don't get caught up in all the details. For example, you talked about, and I did earlier, about unilateral sanctions. And I detect some difference here. I think our sanction policy, vis-a-vis Iraq, started as unilateral, did it not? I don't remember all the details.

But tell us what you, from your perspective, what are the three or four key questions that we need to confront and work out together within this Committee and with the Administration.

Mr. EIZENSTAT. Thank you. I will be very precise about it. First of all, start with the principle of symmetry and comity between the branches, that what Congress imposes on itself to restrain its own actions with respect to sanctions should mirror those on the executive branch. And because you can always, regardless of a general sanctions bill, have a bill tomorrow passing a new sanction that says notwithstanding any other provision of law, we are going to impose sanctions for religious persecution, for child abuse, whatever.

So give the President the same flexibility. Second, there are in H.R. 1244, a number of procedural hurdles before the President can exact a sanction, 45-day notice in the Federal Register for example, reporting requirements. What we are saying here is give the President maximum flexibility, because there may be instances in which, not just having to waive each one of those, which is very difficult and comes at a political cost, allow the President the discretion to determine whether that kind of notice is reasonable.

It would be unreasonable to say, in every instance, you have to give 45 days advance notice to the country you are going to sanction, because one of the sanctions freezes might be freezing assets. And that allows them to remove their assets.

So give the President on the procedural hurdles maximum flexibility.

Third, we do agree with what I would say is the heart of the Crane bill, the heart of the Lugar bill, and that is the concept of a cost-gain analysis. Now, you can't put this into a computer and come out with a one-to-one ratio. How do you measure the benefit of preventing a proliferation of a product? How do you deal with the benefit of protecting human rights?

But, nevertheless, there should be some real effort to look at the economic costs and measure those against the benefit.

And then last, and most important, there must be a stand-alone provision in the bill, in this generic reform bill, that says that for every future sanctions bill, the President should have national-interest-waiver authority to waive that sanction if he feels it is necessary. That is what was done with title III of Helms-Burton. We have that authority.

That is what is done with section 4(c) and 9(c) of ILSA. We use that authority, in 9(c). And we used it to lever positive things that advance the benefit of the bill. Without that, we are in a straight-jacket, and we cannot tolerate it.

Now, we built in to our suggestion that Congress could have the opportunity to override that waiver authority on an expedited basis, subject to constitutional limitations.

Those are really the four items. And, again, to narrow it even to just two, give us flexibility on the procedural guidelines and give us stand-alone national-interest-waiver authority for any future sanctions bill.

Mr. LEVIN. Thank you.

Chairman CRANE. I failed to ask you one other question that I would like to bring up before I yield. Later today we are going to hear from a witness on the issue of imports of gum arabic from Sudan, which are currently banned as a result of U.S. sanctions. And sanctions were applied to this product even though Sudan controls 90 percent of the world market.

And to date, there has been no identifiable consequence of the sanctions on the Sudanese regime. Is this not a classic example of the failure of unilateral trade sanctions and the consequences they can have on U.S. firms and workers?

Mr. EIZENSTAT. Mr. Chairman, we granted last year a 1-year waiver on the gum arabic sanction because of the impact on a few important U.S. companies and indicated to them we hoped that they would use that 1-year period to see if they could find alternative sources. That 1-year period is now coming to an end, and we are now in an interagency review and an internal look within the State Department as to what to do with respect to the future on that. We have come to no decision yet, but we know that this is something we have to address, and we are looking at the issue from all perspectives.

Chairman CRANE. Well, we can get you the testimony of the witness later on, on one of our panels on the issue from his perspective as a utilizer of gum arabic.

Mr. EIZENSTAT. It is certainly timely, and it is something again we are looking at, at this very moment.

Chairman CRANE. Mr. Rangel.

Mr. RANGEL. Thank you for your long interest in this area. How does our policy with Cuba fit into the policy that you stated in not using food and medicine as a weapon when there is no war?

Mr. EIZENSTAT. We have done a number of things with respect to Cuba to try to make sure that the regime, not the Cuban people, were the targets of our sanction. For example, the President now twice has encouraged greater remittances from Cuban-Americans to their families. And, indeed, on January 5 permitted any American citizen, including yourself or me, to provide a remittance to a Cuban family.

Mr. RANGEL. Let me interrupt. I am talking about the sanction against the sale of food and medicine to Cuba.

Mr. EIZENSTAT. Yes, sir.

Mr. RANGEL. I know, I know what has been done, but I really am concerned about the prohibition of people selling food and medicine to Cuba. And I thought you were saying that this was against U.S. policy.

Mr. EIZENSTAT. With respect to the sale of food, this was governed by the President's decision of January 5, in which he indicated that sales could be made if they were sold to non-governmental entities. And the difference, if I may, between the decision on January 5 with respect to Cuba, and the April 28 decision with respect to food and medicine, is the following.

The President's decision on April 28 applied to commercial sales of agricultural commodities and products, medicines, and equipment where the Administration has authority to act. And we are defining what is a food. But it specifically did not refer to agricultural inputs, such as tools, farm, and equipment.

In contrast, the President's January 5 announcement with respect to Cuba did include agricultural inputs. It is in that sense different from the April 28 measure.

Mr. RANGEL. Mr. Secretary, can we sell chickens, beans, food products and medicines to the Cuban people?

Mr. EIZENSTAT. Only if it goes to private entities.

Mr. RANGEL. That is a restriction on the commercial sale of foods to a country that we are not at war with.

Mr. EIZENSTAT. That is correct. It is correct that it is a restriction on a sale. We, by the January 5 decision, expanded the allowance of sales so that it can go to private entities, but only to private entities.

Mr. RANGEL. But food is being used as a weapon.

Mr. EIZENSTAT. There is clearly a limitation on the sale to any governmental entity in Cuba. That is correct.

Mr. RANGEL. And we are not at war with Cuba.

Mr. EIZENSTAT. We are not at war with Cuba.

Mr. RANGEL. And medicine, the same rules apply. There is a restriction on the sale of medicine to Cuba.

Mr. EIZENSTAT. There are limitations on the sale of medicine, although hundreds of millions of dollars of medicines have been distributed to Cuba.

Mr. HOUGHTON. Would the gentleman yield?

Mr. RANGEL. No. Not at this point.

But are you aware of the fact that drugs are going into Cuba from South America? And a lot of it is coming into the United



States. A lot of it is being dropped into Cuba. Some of it is being dropped near Cuba. And that the U.S. Government is restricted from giving any assistance to Cuba while other governments are attempting to assist them.

And because of the sanctions, we have a prohibition from providing assistance to that government and preventing the international trafficking of drugs in and around Cuba.

Mr. EIZENSTAT. I will answer that question specifically, but permit me just to mention on your previous question one other fact. And that is, humanitarian donations of medicine or medical equipment to non-governmental organizations in Cuba, like CARITAS, for example, the Catholic Church-based organization, don't require any induced monitoring. And last year alone, we licensed almost a hundred million dollars in humanitarian donations of medicine and medical equipment.

Mr. RANGEL. Mr. Secretary, are we restricting the sale of medicine to this government?

Mr. EIZENSTAT. Yes, sir.

Mr. RANGEL. And are we restricting the sale of food to this government?

Mr. EIZENSTAT. Yes, we are.

Mr. RANGEL. And this is because of our policy, our foreign policy as it relates to the government of Cuba.

Mr. EIZENSTAT. Absolutely.

Mr. RANGEL. All right.

Mr. EIZENSTAT. With respect to drugs and drug interdiction. There is some cooperation. I don't deal with this issue specifically, but my understanding is that there are some limitations on our cooperation but that there is a degree of cooperation with respect to drug interdictions with Cuba.

Mr. RANGEL. Well, I met yesterday with Tom Constantine. He didn't know about it. I have been reading that General McCaffrey has been asking to be able to give some assistance in this, and he has been rebuffed.

Who, what agency—the Cuban desk doesn't know about this. This is a very, very serious issue. The Cuban government has unofficially been requesting assistance, been anxious to go into treaties. I have discussed it with the Cuban officials. Europeans have gone into treaties with them to assist in stopping international trafficking of drugs.

And I don't know of anything—I talk with Commissioner Kelly. He is in charge of Customs. I have talked with the Coast Guard officials. I don't know of any cooperation we have given to stop drugs from—Cuba being used as a place to interdict drugs.

Mr. EIZENSTAT. Well, clearly we are precluded from giving any financial assistance, technical assistance, anything of that sort.

I understand that there is some sharing of information.

Mr. RANGEL. Information?

Mr. EIZENSTAT. Sir, I don't deal with drug interdiction. So I will be glad to try to get you the information. And you deserve an answer. It is an important question. But it is not an area in which—

Mr. RANGEL. Could you direct me to who might have this actual—

Mr. EIZENSTAT. I will try to do so. And I will try to get you very specific information. It is a very important question, and you deserve to get a specific answer.

Mr. RANGEL. Do you think we should be cooperating with the Cuban government to stop the international trafficking of drugs?

Mr. EIZENSTAT. I think it is important we cooperate with as many countries as we can, including Cuba, to stop drugs from coming into the United States. But I think it has to be bound by our overall policy with respect to Cuba, and that is where the balance has to come into play. But certainly drugs are extraordinarily dangerous, and anything we can do to cooperate we ought to try to do within the limits of our legal restrictions.

Mr. RANGEL. But the policy should be stronger than the damages done to the United States by the drugs that's coming in through Cuba.

Mr. EIZENSTAT. Again, I don't deal with drug policy, but I will try to not only direct to who does but try to give you a much more specific answer in terms of drug interdiction. It is a legitimate question on a very important issue.

I saw the article in the Post about this a couple of days ago. And it is something that deserves a specific response.

Mr. RANGEL. I would like to work with you on this.

Mr. EIZENSTAT. I would like to work with you on this.

Chairman CRANE. The time of the gentleman has expired. Mr. Houghton.

Mr. HOUGHTON. Yes. Just very briefly. If you make the assumption that food and drugs are necessary, Mr. Secretary, are there any practical, viable non-governmental agencies or vehicles through which these products can be directed?

Mr. EIZENSTAT. In Cuba, do you mean? Yes, sir, CARITAS.

Mr. HOUGHTON. Churches?

Mr. EIZENSTAT. CARITAS is the Catholic Church's organization.

Mr. HOUGHTON. And if a private agency, a company wanted to contribute to that, that would be sufficiently large to be able to distribute medicine or food throughout the country?

Mr. EIZENSTAT. They have a very good system of distribution. Yes.

Chairman CRANE. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman. Secretary, thank you for being here. Congratulations on the appointment. I, too, would be very interested in some of the follow-up to the questions that were asked by Mr. Rangel. I won't belabor the point any, but I, too, would like to see how the Administration reconciles the differences in treatment, and to have a better understanding of how the Administration would try to support its differentiation of the various countries.

So, Mr. Chairman, with that I will yield back.

Chairman CRANE. Mr. Neal.

Mr. NEAL. Thank you, Mr. Chairman. Mr. Eizenstat, let me see if I can get you to frame this in philosophic terms. How did we move, in your judgment, from perhaps Jimmy Carter's best moment, his focusing on the whole notion of human rights in the world, to such a patchwork of how we deal with these issues today?

Mr. EIZENSTAT. Well, I don't think there is a patchwork. It think that human rights are and remain a central feature of our foreign policy. Our human rights reports are very specific, very detailed. We put a tremendous amount of effort into our human rights campaign.

I think that President Carter certainly helped start that, but we like to feel that we are continuing in that direction. And, indeed, the actions that the President took on April 28 with respect to food and medicine is a reflection of our feeling that human rights of average citizens should in general not be affected by restrictions in dealing with food and medicine.

Mr. NEAL. But my point I think, in a broader context, is this. We seem to have moved away from the Carter position on human rights to a policy that is based more upon the potential for economic reward. And I think most of us would say, as Mr. Rangel pointed out, that there are some inconsistencies along the way.

And maybe you are not the one to answer the question. Maybe that should come from Madeline Albright. I have spoken to her about Cuba. And many of her positions on Cuba are, I think, intransigent. She doesn't seem to be interested in much movement at all.

Mr. EIZENSTAT. Well, no, I think indeed that if the only factor were the economic factor, one would have no sanctions of any kind at all. So the moral judgment in foreign policy comes into account that there are instances, both with respect to unilateral and, particularly, with multilateral sanctions, which have a much better chance of being successful, in which, notwithstanding the economic loss to the country, it is important for the United States to take a moral stand. Burma, Sudan are examples. Iran, Iraq, Serbia. These are all examples of instances in which we have consciously made a decision that our moral and foreign-policy interests outweigh whatever economic gain there may be.

Mr. NEAL. All right. I vote for most-favored trade status with China. And the argument the Administration uses there is that it is economic contact that will in the end bring about democratic reform.

Mr. EIZENSTAT. I believe that in many instances that is true, but there is a big difference, a huge difference between the government of China, what everyone thinks about it, and the government of rogue states like Iran or Iraq or Sudan, which are slaughtering and murdering their people.

There is a very big difference. And so you have to take on a case-by-case basis—and this is why the legislation has to give flexibility. Clearly, and believe very strongly, that economic engagement with China has profoundly changed that country. And, indeed, if we could get a WTO Agreement along the lines of the April decisions, it would open up that society in remarkable ways to foreign penetration, to foreign ideas, the Internet, information, access to U.S. corporate values.

But there are other regimes, Iraq, Iran, where that kind of engagement would not have that effect, it would indeed do what the Bush administration was criticized for doing with Iraq, and that is simply stoking a dictator's capacity to take actions which are contrary to our interests.

And that is why it is very difficult to have a blanket policy. You literally have to look on a case-by-case basis.

Mr. NEAL. OK. Thanks, Mr. Chairman.

Chairman CRANE. Well, thank you, Mr. Secretary. We appreciate your participation in our hearing today, and we look forward to working with you continuously on this until we get a bill reported out.

Mr. EIZENSTAT. Thank you. This is very important legislation, and I really do look forward to working with you to see if we can come together on it.

Chairman CRANE. Thank you so much. And now I would like to welcome our next visitor, who is someone that I get confused with when he is sitting there and not up here because Mr. Rangel, Charlie Rangel, was our—Charlie Rangel [laughter]—Sam Gibbons—Charlie too—but Sam Gibbons was our chairman of the Trade Subcommittee for a long time. And I had the privilege of working under him, and then he became chairman of the Full Committee, and he is probably the most solid, Grover Cleveland, free-market, free-trade Democrat that I have encountered in recent history.

And I want to welcome you before the Committee, Sam, but unfortunately I have to make another meeting quickly. If they extend their questioning of you, I think I can get back here in time to throw a couple curve balls your way.

But I look forward to also having the opportunity to see you again later today. And thank you for coming to testify. And if you will make your presentation now, then I will put Amo in charge here and start the questioning of you.

Thank you, Sam.

**STATEMENT OF HON. SAM M. GIBBONS, GIBBONS & COMPANY;  
AND FORMER MEMBER OF CONGRESS**

Mr. GIBBONS. Thank you, Mr. Crane. Thank you, Mr. Chairman. I appreciate it.

Let me say I am very pleased and very happy to be back here on this subject. I hope no one has taken the trouble to research my record on this. I will relieve you of that responsibility by saying—asking a mea culpa and realizing that I have made some mistakes in this area. Please forgive me.

But upon reflection, I have never seen a unilateral trade sanction that was worth a hoot, that ever did any good except hurt Americans. And it is time we got rid of them.

I sometimes used to think when I was chairman of the Committee that there must be a staffer over in the Foreign Affairs Committee who would scan the headlines and listen to the news reports every morning and come up with the latest atrocious act of some foreign concern. He had a form over there, or she had a form over there, just filled it out and filled in the name of the country and that afternoon we were voting on the House floor on another sanction.

Early in this game, they were not very careful about how they drew the legislation, and they put trade sanctions in there to enforce their legislation. And I would get our staff to capture that legislation, drag it over to the Ways and Means Committee, bury it in my Subcommittee, and it would never see the light day.

But, you know, after awhile, the Foreign Affairs Committee caught onto to what I was doing and they changed the way they drafted the legislation, and I couldn't use that anymore to get rid of these unilateral trade sanctions.

I did spend quite some time working with sponsors of international trade sanctions, unilateral trade sanctions, to try to persuade them that they were impractical, but I was never able to succeed in that area. I was able to get them to modify some of their language through threats and persuasion, but frankly, in my estimation, there has never been a good unilateral trade sanction that I have ever seen.

I first became acquainted with them back in 1935 or 1936, when the United States started its unilateral trade sanctions against Hitler and Mussolini and Tojo and all that bunch of hoodlums that were running the world then. They didn't do any good. They didn't need to buy any of our products. But there were lots of other people around the world that needed to buy our products that were affected by those.

And I think that we actually encouraged Tojo and Hitler and Mussolini to expand their aggression because we had cutoff, through our neutrality acts and through our sanctions there, all hope of people in the free world from being able to buy the kind of materials that they needed to buy.

I did note that one unilateral sanction worked during my teenage, and that was the fact that we cutoff the supply of helium gas to Germany. So they substituted hydrogen for helium, and all of us who are of my age remember what happened over Lakehurst, New Jersey, when the Hindenburg exploded, fried a lot of Americans and great many Europeans up in the sky. And we saw their bodies being, falling to the Earth either jumping or falling out of the Hindenburg as it burned.

So that one, at least, put an end to the transportation of passengers by lighter than aircraft. Nobody has ever built one of those things since that time.

During modern times, though, they have not been effective, and perhaps they were somewhat effective after World War II, when we had a sort of monopoly on the supply of technological material. Everybody else had been bombed out of existence.

But that technology advantage rapidly evaporated, and, frankly, I haven't seen one that has worked in my time.

Now I am not being paid by anybody to come here today and talk against these things. I am one of the co-chairs of Americans for Humanitarian Trade With Cuba, but we are having an election right now, and I may not get re-elected. So I can't pretend to represent that organization there.

But I want to tell you, I think our unilateral embargo on Cuba may have started off with some good intention and some good practical impact, but it has been in existence far too long and it has been a miserable, miserable failure. And we have done some real damage to Cuban children, infants, and to old people and dependent people by our embargo.

I see the red light is on, and I will welcome any questions that you gentleman may have.

Mr. HOUGHTON [presiding]. Thanks very much, Sam. Wonderful to have you here.

Mr. LEVIN.

Mr. LEVIN. Well, maybe I will forego because I think we are going to have much of a chance to be visiting on this and, I hope, on other trade issues. Your continued presence here remains a source of pleasure as well as uplift for us.

Mr. GIBBONS. Thank you, Sander.

Mr. LEVIN. And rather than trying to do this across this gap here, we will be visiting on other issues. As you know, we have an open-door policy for everybody, in your case, there is not even a door. So, we will be chatting on this. And there are other trade issues coming along, and we hope very much that you will have the time to give us the benefits of your experience and insights.

Mr. GIBBONS. May I say, you know, I got here a little early for this today and I looked over some of the testimony of others that are following me. There is a real interesting article in the—testimony in there by Mr. Bowe of Ellicott Machinery. I think you would be interested in it. You have always been interested in that kind of thing. And he lays out, you know, he is in the business of making dredging machinery up here in Baltimore, and he lays out by date and time and by amounts how much all these embargoes, these unilateral embargoes have cost in jobs, in sales to his company.

Now, you know, we always talk in terms of agriculture. And that is an important part of our society, but here is a little—and they are not little, because anybody who manufactures dredges is not little—but here is a rather obscure part of the American economy, and he lays out. I would encourage you to read his statement because it will give you some real meat you can put your teeth into.

Mr. LEVIN. And we are doing that.

Mr. GIBBONS. Mr. Ellicott. He is in the next panel, and he is the second witness.

Mr. LEVIN. Thank you.

Mr. HOUGHTON. Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman. Welcome back, Sam. You are one of the members that didn't have to retire in order to say what you believed. And you have been outspoken over your years as a colleague, friend, and member.

The sanctions on Cuba, do you believe that the politics of the Cuban, of the Floridian vote, especially that that relates to the Electoral College, has some impact on our foreign policy in Cuba.

Mr. GIBBONS. There's no doubt in my mind about that, Mr. Rangel. I have lived in Florida all my life. And Florida has had the reputation for a long time of being a swing State in the presidential vote. And so, candidates of both parties, Democrat and Republican, have come down to Florida to try to figure how to get just enough popular votes in order to get the huge electoral vote that's there.

And that has influenced both Democrat and Republican candidates to come down there. And they find that the most eager to deal with them are the Cuban-Americans in Miami. And both the Democrats and Republicans have made, I think, unfortunate agreements with the Cuban-Americans in Miami about what they would do about the embargo if elected.

That's been my experience. And it is—they have taken full advantage, as they are entitled to—of their ability to promise their vote to either candidate. It's a ridiculous thing, but that is the way the American system works.

Mr. RANGEL. Well, that has been my view, but that would really be saying that our foreign policy in Cuba is really based on our domestic political problems right here in the United States.

Mr. GIBBONS. Yes. It is a peculiarity of the Electoral College system and the fact that Florida is a swing state and the fact that you look for swing votes in Florida, and the most promising swing votes are right here in the Cuban-American community in Miami.

Mr. RANGEL. This group that you mentioned that you enjoy membership in, there are a humanitarian groups, and religious groups, but a large number of the members are actual business groups. Is that correct?

Mr. GIBBONS. That's correct. That's correct.

Mr. RANGEL. And they have been able to show the tremendous amount of moneys and jobs that have been lost to Americans as a result of this trade embargo against Cuba. Is that correct?

Mr. GIBBONS. That is correct. In all honesty, let me say, I have received campaign contributions from the Cuban-American groups in Miami. I don't know whether they want their money back or not, but, you know, they have been pretty generous. And they were well financed.

Mr. RANGEL. But, isn't it safe to say that not all Cuban-Americans support the embargo against Cuba?

Mr. GIBBONS. Oh. Well, we have done some polling down there, and we find that the opposition to doing something positive about our relations with Cuba is very much an age-related phenomenon now. There are some younger folks who feel very strongly about the policy and want to continue the current policy, but generally speaking it is an age-related thing.

People my age, who lost a lot with the Castro takeover, are bound to be very strongly opposed to doing anything about it until they regain their property and get their just compensation for whatever losses they may have had.

Mr. RANGEL. But it seems to me that there are Cuban-Americans our age that have become very successful entrepreneurs that are very anxious to do business in Cuba.

Mr. GIBBONS. Oh, they are hard-working folks, and they have done real well. Yes, they have.

Mr. RANGEL. But I mean, but they are restricted from doing business in Cuba, where they could be most successful.

Mr. GIBBONS. Well, they do a lot of business all throughout South America because of their being able to speak the Spanish language and knowing the culture very well. And they have done extremely well in this country, Mr. Rangel. They are good, hard workers. And you have to admire them for that.

I have quite a few of them in my own old constituency that I have known over the long period of time. I have respect for them, whether they be in Miami or Tampa or wherever they may be.

They are generally honest, hard-working folk, but they have had a tremendous impact upon American policy toward Cuba. And,

frankly, I think American policy toward Cuba is just counter-productive, and it has been for quite some time.

I would encourage Members of Congress to go to Cuba. You know, you all can go legally, where I cannot go legally anymore. I can get a license from the Treasury Department and go, and I have done that, but you don't have to do that. You all ought to go. I know you have been, and I know others have been. But the whole Congress should go down there and take a look at that place.

I think it would be good for the American policymakers.

Mr. RANGEL. Does your group plan a visit to Cuba? What is the name of your group again?

Mr. GIBBONS. Americans for Humanitarian Trade With Cuba. We have—

Mr. RANGEL. Have they been to Cuba?

Mr. GIBBONS. Have they been to Cuba?

Mr. RANGEL. Yes, the group.

Mr. GIBBONS. Well, we didn't go as that organization. We went as American businesspeople. I went there, and we complied with all of the requirements that—you know, if you go in that kind of licensed group, you can't spend any money. Now let me say I had to violate restriction real fast because I didn't realize they had privatized the restrooms in the airport there.

Well, that's enough said on that subject.

Mr. RANGEL. Well, I hope that you would visit with me soon and update me on the activities of this group that you are a member of so I can work more closely with them.

Mr. GIBBONS. Well, thank you.

Mr. RANGEL. Thank you, Mr. Chairman.

Mr. HOUGHTON. Thank you. Mr. Gibbons, I would like to just ask you a couple of questions. The first is, what sort of impact this has on our allies. I mean, if we are talking about Cuba. But also, I would like to talk about other countries. What are the alternatives?

I mean, you have a country like Burma. I have this list here because there are approximately 75 countries that are either on the list with sanctions or threatened with sanctions. Only about 30 of those have actual sanctions against them. But Burma for narcotics, political repression, North Korea for an export we called terrorism, Republic of Serbia—what do you do about those, those countries?

Mr. GIBBONS. Well, we need better multilateral ways of dealing with them. I first think you need to look at who we are as Americans. You know, I am struck by the fact that we are only less than 5 percent, some 4-point-something percent, of the Earth's population now. We have control of a lot of the Earth's wealth, and we go around patting ourselves on the back that we are the only superpower left on Earth. I'm not sure we ought to be around bragging about that because too many people want to call our card on that.

But we need better multilateral organizations in dealing with the pariahs that spring up from time to time and thrive in the political environment of their particular countries. There are times when you will want to express yourself, saying that we don't agree with this policy, and the Congress has most often responded by imposing unilateral sanctions.



Now, frankly, Mr. Houghton, I have never seen the Congress in all the years that I spent here, sit down and weigh the impact of those unilateral sanctions. They usually come up so fast and so quickly that people are going to get hurt by these unilateral sanctions never have a chance to come to Congress and express their opposition to the sanctions.

They may not even be aware of the fact that they are about to get whacked by the sanctions. And so, you know, Congress does need to back off, stop, look, and listen long enough before we do that, before we take any steps.

So the legislation that is being proposed here is mainly stop, look, and listen legislation—stop, look, listen, and think, reason—what is the reasonable chance of our sanction being successful. But, essentially, the world needs to develop better multilateral means of dealing with these matters.

The United Nations isn't much, but it is the best we have got. And we ought to try find ways that we can make the United Nations more effective in these sanctions. And we have got NATO over there. It's not the United Nations, and it is not a political body. It is a military body. But it is pretty effective.

And, truthfully, the problem is that we as civilization just don't have the tools available to us to step in and take some meaningful action against the pariahs that have constantly haunted this world since history has been written.

Mr. HOUGHTON. So, in effect, as far as the function of the economy is concerned, goods and services, that you would think it would be business as usual with Serbia and with North Korea and Cambodia and places like Sudan.

Mr. GIBBONS. I don't think we ought to resign ourselves as business as usual. I really think we ought to try to find more effective ways of getting a world consensus on some of these problems.

Mr. HOUGHTON. And what might that be, Mr. Gibbons?

Mr. GIBBONS. I don't have the answer to that. I wish I were wise enough to have the answer to that. As I say, the United Nations is not much, but it is the best thing we have, and we ought to try to honestly go in there, pay up our back dues, and roll up our sleeves, and get to work in that organization and try to find ways of getting it to do the kind of things—or find a, create better institutions.

Mr. HOUGHTON. Just one more question. So if we paid our back dues and rolled up our sleeves and worked with the United Nations and sufficient number of people in the United Nations thought that maybe the only squeeze we could put, short of war, on some of these countries was a sanction policy, would you think that would be appropriate?

Mr. GIBBONS. Be better than what we do. At least, it wouldn't hurt us. The current system really hurts us. We are losing American jobs and maybe even families that we sacrifice without knowing who they are or really caring who they are when we slap on these unilateral embargoes.

I remember in my own district. It was very directly affected by the Cuban embargo. In the city of Tampa, we perhaps lost as many as 10,000 jobs directly connected to the Cuban embargo when it was slapped on.

Now, I probably would have supported and did support the Cuban embargo when it was first slapped on, but it has gone too far. I remember the first time I met Senator Moynihan, he was working down in the Kennedy White House, and when I got to complaining about how many jobs I had lost and how many people I had unemployed in my district, they sent Pat Moynihan up to work with me as a little freshman Congressman up here to try to find some to get those people back into work.

We weren't very successful, but we tried. And I was really impressed with Senator Moynihan's sincerity and his ability at that time.

I picked up something in Mr. Eizenstat's testimony about private agencies in Cuba. There are no private agencies in Cuba that Americans can deal with. CARITAS is a fine attempt, but the Catholic Church in Cuba is not like the Catholic Church in the United States. The Catholic Church in Cuba is extremely weak. It has not very many employees. It does not have many people that work as volunteers in their church effort.

And, frankly, the folks in CARITAS will say we are just not capable of doing the Administration of all the food and medicine. We don't have the manpower or the womanpower to do it. We don't have the resources to do it. We are marginal, because the government is so hostile to us in our activities in Cuba. And we have our own political problems within Cuba ourselves, just pushing our belief, much less trying to push food and medicine and handle all the administrative difficulties of handling food and medicine for 11 million people.

And, frankly, all these charitable contributions that Mr. Eizenstat has talked about, I can't see any evidence that they have gotten to the Cuban people.

You ought to try to ship something to Cuba. You know, we have got an embargo. If any ship or plane travels from the United—travels to Cuba, they are quarantined for, the vessel is, for 6 months from even entering the United States after that. Well, nobody wants to dedicate a ship or an airplane to flying into Cuba because, gee whiz, it can't fly into or come into the most profitable market in the world.

You can't ship anything from the United States to Cuba. If you want to ship anything from the United States to Cuba, you have got to go up to Canada and hope you can find a ship that comes through there, and make a charitable contribution and send it to Cuba.

There is just no vessels traveling between the United States and Cuba, except yachts.

Mr. HOUGHTON. Sure.

Mr. GIBBONS. Now if you are a yachtsman and you want to race, you can, you can race to Cuba and, I don't know what the heck they do when they get down there—

Chairman CRANE. Well, I'm not a yachtsman; maybe Mr. Levin is. Are you a yachtsman? You're not, huh? [Laughter.]

Mr. GIBBONS. Well, there are a lot of them in Florida, I want to say. They are fine folk, and they race off to Cuba every year, and they promise the State Department and everybody else that they

won't get off their boats while they are down there. But I don't think that there is anybody around to check up on them.

The Cuban people don't care if they get off the boats.

Mr. HOUGHTON. Sam, thank you very much. I really—have you got any other questions. I really appreciate your being here. I feel strange looking down at you. I should be there looking up at you here. [Laughter.]

Mr. GIBBONS. Well, I understand how you feel, and let me say there are advantages on both sides of this. [Laughter.]

Thank you.

Mr. HOUGHTON. Thanks so much. Really appreciate this.

Now, the panel of Mr. Kinzer, Bowe, Mr. Christian, Mr. McMahon, and David Hamod, would you please come to the table here. Thank you very much.

All right. Well, thank you very much. I am sorry I called Mrs. Christian "Mr. Christian." I apologize for that.

Well, anyway, Mr. Kinzer, would you begin your testimony.

**STATEMENT OF KEITH KINZER, PRESIDENT, IDAHO GRAIN  
PRODUCERS ASSOCIATION, GENESEE, IDAHO**

Mr. KINZER. Yes, sir. Thank you. I would like to thank the Members of the Subcommittee on Trade for allowing me this honor to present this in front of you and to get off the tractor seat after about a month straight.

Unilateral export sanctions unduly burden U.S. wheat producers. There is strong historical evidence that trade restrictions imposed by the U.S. Government adversely impact U.S. commodity exports. A sanction applied against an importing country immediately results in the loss of that market. But wheat producers have seen the ripple effect of these economic restrictions.

The first associated impact is that competing exporters change their marketing practices to adjust to U.S. unilateral economic sanctions to the direct detriment of the United States. This is particularly true for Canada and Australia, who market their wheat through single-desk monopoly agencies.

In addition, when the U.S. retreats from a world wheat market, it loses its reputation as a reliable supplier and hinders future efforts to rebuild lost market share. Moreover, sanctions on the export of agricultural commodities rarely result in changes in the behavior of the targeted country.

Our competitors are quick to fill any need that the United States leaves unmet. It is the American farmer who feels the brunt of any negative impact caused by the use of unilateral export restrictions on agricultural goods.

On April 28 of this year, the White House announced a shift in U.S. sanctions policy that will exempt food and medicine from existing and, possibly, future export restrictions. U.S. wheat producers strongly support this decision.

This policy change immediately affects three countries, Iran, Libya, and Sudan. The inclusion of Iran is particularly significant in so far as Iran imports an average of 4.5 million metric tons of wheat per year. This demand is currently being met by our competitors in Canada and Australia. At other times, Argentina and the European Union have been significant wheat exporters to Iran.

In other words, of the world's main wheat exporters, only the United States, the largest wheat exporter, was excluded. We urge the Administration to quickly develop and implement the necessary regulations that provide the flexibility and the facilitation to export U.S. wheat to these countries.

The recent easing of sanctions does not apply to Cuba, North Korea, or Iraq, who are currently eligible to receive food, food assistance, and medicine from the United States through various other means. In the case of Cuba, U.S. wheat growers anxiously await the relaxation of congressional restrictions on the commercial sale of commodities to that country.

We currently estimate that the elimination of sanctions and other restrictions would open 10 to 12 million metric tons of global wheat trade, previously off limits to the U.S. producers. This would have a significant boost to the U.S. farmer.

We appreciate the chairman's work and leadership in introducing H.R. 1244, the Enhancement of Trade, Security, and Human Rights Through Sanctions Reform Act. We respectfully urge Congress to undertake comprehensive sanctions reform as embodied by H.R. 1244.

The key provisions of the bill necessary for any meaningful attempt at sanctions reform include the establishment of clear policy goals, a comprehensive economic analysis of costs, a permanent Glenn amendment exemption for agriculture, the codification of a contract sanctity clause, and the inclusion of a sunset provision.

I would like to emphasize the importance of Congress' effort last year to exempt export credit guarantees from the Glenn amendment restrictions. In marketing year 1997-98, Pakistan was the third largest export marketer for U.S. wheat, comprising—excuse me—10 percent of the total wheat exports. Congress' quick action on sanctions last year save an important wheat market for the United States.

Finally, we want to reiterate our view that the Federal Agricultural Improvement and Reform Act of 1996 makes farmers even more dependent on the world market for their income. Since most of the world's consumers live beyond our borders, U.S. wheat producers are committed to seeking increased access to the world market.

U.S. unilateral export sanctions coupled with high tariffs, unsubstantiated sanitary and phytosanitary restrictions, unfair practices of state trading enterprises, and continued high levels of European subsidies provide U.S. wheat farmers with yet another hurdle to overcome in competing for the world market share.

The imposition of the U.S. unilateral export sanctions that limit our access to foreign markets is incompatible with the FAIR Act. It is time—in a time of low-commodity prices, greater competition for export sales, and the adverse impact of unilateral sanctions on farmers, we are pleased with the attention Congress has given to the long-term-sanctions-reform policy.

We look forward to working with you and the other Members of the Committee to restore, maintain, and expand export markets for the U.S. wheat producers.

And I would like to again thank you for this opportunity, and look forward to taking any questions.

[The prepared statement follows:]

**Statement of Keith Kinzer, President, Idaho Grain Producers Association,  
Genesee, Idaho**

Mr. Chairman, Members of the Subcommittee on Trade, my name is Keith Kinzer. I am President of the Idaho Grain Producers Association and a wheat producer from Genesee, Idaho. Before I begin my prepared remarks, I would like to thank the subcommittee for the opportunity to comment on a subject of immense importance to the nation's wheat producers.

Unilateral export sanctions unduly burden U.S. wheat producers. There is strong historical evidence that trade restrictions imposed by the U.S. Government adversely impact U.S. commodity exports. A sanction applied against an importing country immediately results in the loss of that market, but wheat producers have seen the ripple effects of these economic restrictions. The first associated impact is that competing exporters change their marketing practices to adjust to U.S. unilateral economic sanctions—to the direct detriment of the U.S. This is particularly true for Canada and Australia who market their wheat through single-desk monopoly agencies. In addition, when the U.S. retreats from the world wheat market it loses its reputation as a reliable supplier and hinders future efforts to rebuild lost market share. Moreover, sanctions on the export of agricultural commodities rarely result in changes in the behavior of the targeted country. Our competitors are quick to fill any need that the United States leaves unmet due to the wide availability of agricultural commodities. It is the American farmer who feels the brunt of any negative impact caused by the use of unilateral export restrictions on agricultural goods.

On April 28, 1999, the White House announced a shift in U.S. sanctions policy that will exempt food and medicine from existing and possibly future export restrictions. In the words of the President, “. . . food should not be used as a tool of foreign policy, except under the most compelling circumstances.” U.S. wheat producers strongly support this decision. This policy change immediately affects three countries: Iran, Libya, and Sudan. The inclusion of Iran is particularly significant insofar as it imports on average 4.5 million metric tons of wheat per year. This demand is currently being met by our competitors in Canada and Australia. At other times Argentina and the European Union have been significant wheat exporters to Iran. In other words, of the world's main wheat exporters only the United States, the largest wheat exporter, was excluded. We urge the Administration to quickly develop and implement the necessary regulations that provide flexibility and to facilitate the export of U.S. wheat to these countries.

The recent easing of sanctions does not apply to Cuba, North Korea, or Iraq who are currently eligible to receive food, food assistance and medicine from the United States through various other means. In the case of Cuba, U.S. wheat growers anxiously await the relaxation of congressional restrictions on the commercial sale of commodities to that country. We currently estimate that the elimination of sanctions and other restrictions, including licensing, for agricultural commodities, would open ten to twelve million metric tons of global wheat trade, previously off-limits to U.S. producers. This would provide a significant boost to U.S. farmers.

In making the April 28 announcement, Under Secretary of State for Economics and Agricultural Affairs, Stuart Eizenstat, noted that this was a first step toward “the goal of comprehensive sanctions reform by both Congress and the Executive Branch.” We concur with this view and appreciate the Chairman's work and leadership on this issue in introducing, the ‘Enhancement of Trade, Security and Human Rights through Sanctions Reform Act (H.R. 1244).’ We respectfully urge Congress to undertake comprehensive sanctions reform as embodied by H.R. 1244. The key provisions of the bill necessary for any meaningful attempt at sanctions reform include; the establishment of clear policy goals, a comprehensive economic analysis of costs, a permanent Glenn Amendment exemption for agriculture, the codification of a “contract sanctity” clause, and the inclusion of a “sunset” provision. I would like to emphasize the importance of Congress' effort last year to exempt export credit guarantees from the Glenn Amendment restrictions. In marketing year 1997/98, Pakistan was the third largest export market for U.S. wheat, comprising 10 percent of total wheat exports. Congress' quick action on sanctions last year saved an important wheat market for the United States.

Finally, we want to reiterate our view that the Federal Agriculture Improvement and Reform Act of 1996 (FAIR) makes farmers even more dependent on the world market for their income. Since most of the world's consumers live beyond our borders, U.S. wheat producers are committed to seeking increased access to the world market. U.S. unilateral export sanctions, coupled with high tariffs, unsubstantiated sanitary and phytosanitary restrictions, unfair practices of state trading enterprises,

and continued high levels of European subsidies, provide U.S. wheat farmers with yet another hurdle to overcome in competing for world market share. The imposition of U.S. unilateral export sanctions that limit our access to foreign markets is incompatible with the FAIR Act. In a time of low commodity prices, greater competition for export sales, and the adverse impact of unilateral sanctions on farmers, we are pleased with the attention Congress has given to long-term sanctions reform policy. We look forward to working with you and the other members of the committee to restore, maintain, and expand export markets for U.S. wheat producers.

Thank you for the opportunity to appear today. I look forward to taking your questions at the appropriate time.

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Mr. HOUGHTON. Thank you, Mr. Kinzer.  
Mr. Bowe.

**STATEMENT OF PETER A. BOWE, PRESIDENT, ELLICOTT MACHINE CORPORATION INTERNATIONAL, BALTIMORE, MARYLAND, AND DIRECTOR, SMALL BUSINESS EXPORTERS' ASSOCIATION**

Mr. BOWE. Yes, sir, Mr. Houghton. My testimony is on behalf of the Small Business Exporters' Association and Ellicott International, a 100-year-old manufacturer. We have been exporting dredges for port construction ever since we built all of the dredges used in the original construction of the Panama Canal.

Today, over half of our sales go to developing countries. We are still a small business with about 125 employees, including unionized steel workers. Our competitors are large, aggressive European companies actively supported by their governments.

Even though we are a small company in a relatively small industry, we have been heavily affected by American trade sanctions. They cost us millions of dollars per year in sales, jobs, market share, lost investment in R and D, profits, and even tax revenue to State and local governments.

To give you an idea how sanctions have affected our business, I would like to illustrate the issue with four anecdotal case studies.

In the late 1970's Ellicott was working with a Finnish ship yard to supply dredges to the Soviet Union. The cooperation was based on using our technology and machinery. After President Carter embargoed exports of American grain because of the Soviet invasion of Afghanistan, the Soviets required the Finnish yard, who was the prime bidder, to get rid of us as an American supplier in retribution for the American embargo. The Finns quickly complied and bought from a European supplier instead.

For 20 years after America's withdrawal from Vietnam in 1975, we were legally unable to do business there. We had previously been the market share leader. During the embargo, our European competitors moved in. Even now, U.S. Government financing agencies are still not fully in place.

For example, Ex-Im Bank is not open for medium-term financing on the same basis as the export credit agencies of our European competitors, Canada, Australia, and so forth. Our most recent lost sale only 4 months ago was for about \$2 million, where we lost even though we had a lower price but we could not offer comparable financing.

India is another target market because of its major infrastructure investment needs. Last year, we signed a multimillion-dollar deal with an Indian company but subject to Ex-Im Bank financing. We received a cash downpayment, and the financing was in process, but the Indian government conducted its nuclear test. Our customer could not wait for Ex-Im Bank availability to be restored, so he canceled the order.

The biggest market in the world today for dredging today is China. They need dredges for flood control and environmental cleanup, nothing sensitive from a security perspective. While America's relationship with China is currently controversial, none of our allies have been reluctant to promote their commercial technologies there.

Our Dutch competitors developed significant market share there before President Nixon opened China to American business. The Dutch have since done hundreds of millions of dollars worth of business there. It is their most important customer.

I had the privilege of attending Secretary Daley's trade mission to China just 2 months ago. The ministers we met said that American companies would sell more if Ex-Im Bank offered financing on the same terms as the Europeans and if OPIC was available.

Just a month ago, our Dutch competitor, on their own trade mission, announced contracts for six dredges worth over \$125 million. The key to this deal was a Dutch government grant comparable to our AID, which is closed in China, which paid for as much as 45 percent of some of the dredges purchased.

What makes American sanctions so ineffective and so harmful to American exporters is the extent to which they are unilateral. Our European competitors, our diplomatic and NATO allies, are aggressively pursuing, with official government support, the same markets we have determined are ineligible to American companies.

Right now, the Dutch and Germans have grants for China, Vietnam, India, and Indonesia, just for dredging. When the U.S. Commerce Department wrote a report recently describing how the Europeans, Canadians, and Japanese promoted their exports to the environmental market in China, an important infrastructure industry, it took them over 88 pages to cover the breadth and depth of this report. This is an example of that.

The spending is over \$100 million per year.

The Dutch foreign trade minister described her government's policy this way: Our work is to develop special advantageous arrangements with these developing countries in order to assure that Dutch companies have a place at the table. All of our ministries cooperate and work closely to maintain a coherent package of export promotion measures.

This is the real world of foreign competition. It is not just between companies, but between countries. So unilateral sanctions amount to unilateral withdrawal and disarmament. The process of sanctions is inherently flawed except where U.S. industry enjoys an international monopoly where foreign substitutes are not available.

However, I am not aware of many, if any, such American monopolies. It certainly does not apply to construction equipment. If there is no international monopoly, then sanctions are doomed to fail

without multilateral action, which would bring our foreign competitors into the same sanctions regime.

My conclusion is that while sanctions may make us feel good emotionally, they rationally ignore the significant negative consequences imposed on our manufacturing economy. Furthermore, they are completely ineffective, given the competitive world where our foreign customers have choices. And they are not reluctant to exercise their options, especially if we force them to do so.

Thank you.

[The prepared statement follows:]

**Statement of Peter A. Bowe, President, Ellicott Machine Corporation International, Baltimore, Maryland, and Director, Small Business Exporters' Association**

My testimony is on behalf of the Small Business Exporters' Association and Ellicott Machine Corporation International, a 100 year old manufacturer of dredging equipment. We have been exporting dredges for port construction, land reclamation, and mining ever since we supplied all of the dredges used in the original construction of the Panama Canal. Today over half of our sales come from exports, mostly to developing countries. We are a small business with over 125 employees and a plant in Baltimore with unionized Steelworkers. We are the U.S. leader in this market; our competitors are large, aggressive European companies actively supported by their governments. While we have the leading technologies in the field, none of these technologies are sensitive to our defense or national security concerns.

Even though Ellicott is a small company in a relatively small industry, we have been, and continue to be, heavily affected by American trade sanctions. They cost us millions of dollars per year in lost sales, and dozens of jobs.

To give you an idea how trade sanctions have affected our business, I'd like to illustrate the issue with five anecdotal case studies. American sanctions have cost us jobs, market share, lost investment in research and development, lost profits, and even tax revenue to state and federal governments.

*Case Study #1—Former Soviet Union:* In the late 1970's Ellicott had been working hard for several years, together with a Finnish shipyard, to supply dredging equipment to the Soviets for port maintenance. The cooperation was based on using Ellicott technology and machinery. When we were close to securing a contract, President Carter embargoed exports of American grain and oil field equipment to the Soviet Union because of their invasion of Afghanistan. Virtually at the contract signing table the Soviets required the Finnish yard, who was the prime bidder, to get rid of its American supplier, i.e., Ellicott, in retribution for the American embargo. Rather than risk the loss of a sale, the Finns quickly complied and bought their equipment from a European supplier instead. The cost to us was a contract worth over \$10 million in today's terms.

*Case Study #2—Vietnam:* For 20 years after the America's withdrawal in 1975, we were legally unable to do business in Vietnam. We had previously been the market leader in South Vietnam. During the embargo period, our French and Dutch competitors moved in aggressively and established significant market share. Even now with the embargo lifted, the prerequisite US government financing agencies are still not fully in place. For example, Eximbank is not open for medium term equipment financing on the same basis as the export credit agencies of our European competitors, Canada, Australia, etc. Our most recent lost sale only four months ago, was for about \$2 million, where we lost even though we had a lower price, but could not offer comparable financing.

*Case Study #3—India:* India is another target market for our company because of its major transportation infrastructure investment needs. A few years ago we developed a toehold with an Indian contractor. Building on that relationship, last year we signed a multi-million dollar deal with the same Indian company for a construction contract it won. We received a firm order and a cash downpayment, all subject to Eximbank financing. While this financing was in process, the Indian government conducted its nuclear test. Our customer could not wait for Eximbank availability to be restored, and we lost the order which included the equivalent of ten Steelworkers' jobs plus significant spending on our vendor base such as Caterpillar and other industrial firms across the country.

*Case Study #4—Iran:* While American commercial activities in Iran have been severely restricted, our European competitors have been active for port projects and waste water treatment plants. Our Iranian sources tell us our products would be



competitive if they were available. Ironically it is our NATO allies who benefit from our unilateral action and self-initiated harm.

*Case Study #5—China:* The biggest market in the world today for dredging equipment is China. They need dredges for flood control, environmental clean-up, and ports—nothing sensitive from a security perspective. While America's relationship with China is currently controversial, none of our NATO allies have been reluctant to promote their commercial technologies in China for our industry and others. Our Dutch competitors developed substantial market share there before President Nixon opened China to American business. They have since done hundreds of millions of dollars in export business to China. It is now their most important customer. On the other hand, we still have post-Tiananmen Square sanctions affecting our ability to do business there, and Eximbank, which is still open in China, is not as aggressive as the credit agencies of our foreign competitors.

I had the privilege of attending Secretary Daley's trade mission to China in March just two months ago. The ministers we met told our group that American companies would sell more if Eximbank offered financing on the same terms as the Europeans, and if OPIC was available. Just a month ago our Dutch competitor, on a trade mission of their own with a Dutch Minister, announced contracts for six dredges worth over \$125 million. The key to this deal was a heavily subsidized Dutch government grant, comparable to our AID (which is closed in China), paying for as much as 45 percent of some of the dredges purchased.

The cost of these sanctions to Ellicott in some years can exceed \$10 million in lost sales.

What makes American sanctions so ineffective in achieving their desired intentions, and so harmful to American exporters is the extent to which they are unilateral. Our European competitors—our diplomatic and NATO allies—the Dutch and the Germans—and even the British in some cases—are aggressively pursuing *with official government support* many of the same markets we have determined are ineligible to American companies. They are spending tens of millions of dollars annually even on an industry as obscure as dredges. Right now the Dutch and Germans have a mixture of bi-lateral grants and ad hoc project grants for China, Vietnam, India, and Indonesia just for dredging equipment. When the U.S. Commerce Department recently wrote a report describing how the Europeans, Canadians, and Japanese governments promoted their exports to the environmental market in China—an important infrastructure industry—it took them over 88 pages to cover the breadth and depth of this support. The spending is over \$100 million *per year*. The Dutch Foreign Trade Minister described her government's policy this way: [our work is to develop] “special advantageous arrangements with these [developing] countries in order to assure that Dutch companies have a place at the table . . . ; [all of our ministries] cooperate and work closely to maintain a coherent package of [export promotion] measures.” This is the real world of foreign competition: it's not just between companies, but between countries, so that our unilateral sanctions amount to unilateral withdrawal and disarmament.

The process of sanctions is inherently flawed and doomed to failure unless the US industry affected enjoys an international monopoly where foreign substitutes are not available. I am not aware of many, if any, such cases, where American companies enjoy such a monopoly. Certainly it is not true in my industry of construction equipment. If there is no international monopoly, then sanctions are doomed to fail in achieving their objectives without multilateral action which brings the governments of our foreign competitors into the same sanctions regime. As most of our sanctions have in fact been unilateral, they have been doubly doomed to failure.

Not only are these sanctions ineffective in achieving their desired result of depriving the sanctioned country of specific technologies, but the party hurt is we ourselves. Our manufacturing labor, often union members, our vendors, our shareholders, and even the government suffer. Had we been able to export more, we would have more employees, spent more money on vendors, been more profitable, and paid more taxes.

We have also lost market share, sometimes on a long term basis. Lost market share is not easily recovered. This is not a small issue when our exports are flat and our record trade deficit is likely to exceed \$200 billion this year.

My conclusion is that while sanctions may make us feel good emotionally, they irrationally ignore the significant negative consequences imposed on our manufacturing economy. Furthermore, they are completely ineffective in achieving their desired results on the sanctioned country, given the competitive world where our foreign customers have choices and are not reluctant to exercise their options especially if we force them to do so.

Mr. HOUGHTON. Thanks very much.  
Ms. Christian.

**STATEMENT OF SHIRLEY CHRISTIAN, BUSINESS MANAGER,  
FRUTAROM INC., NORTH BERGEN, NEW JERSEY**

Ms. CHRISTIAN. Thank you, Mr. Chairman and Members of the Subcommittee, for this opportunity to testify. I am pleased to testify today on behalf of Frutarom Incorporated in my capacity as business manager of Frutarom Gum Division. Frutarom is a leading processor and supplier of gum arabic.

Mr. HOUGHTON. Would you pull that microphone just a little bit closer to you? That would be great. Thank you.

Ms. CHRISTIAN. And we are one of only three processors in the United States. Gum arabic is an essential ingredient in a wide variety of products important to the United States economy.

Prior to the imposition of the sanctions, Sudan was our principal source of supply for gum arabic. Since their imposition, the importation of Sudanese gum arabic is banned. America's unilateral sanctions against Sudan have not hurt Sudan economically. Sudan is free to trade with the rest of the world and does.

Instead, the sanctions have been felt mainly by the U.S. gum arabic processors, who have been left without adequate alternative product sources. This has left us vulnerable to foreign competition at home and abroad and has left our customers and the U.S. consumer subject to the monopolistic practices of foreign processors.

Current trade data, which we have included with our submission to the Subcommittee, demonstrate that the Khartoum government remains unaffected by the sanctions. Sudan has a ready market for gum arabic, particularly in France. Since the imposition of the U.S. sanctions, French gum arabic processors have doubled their imports from Sudan and have moved aggressively to gain market share in the United States and in our export markets.

It appears that those who benefit the most from U.S. unilateral sanctions against Sudan are our foreign competitors. They benefit from the failure of their governments to support human rights and anti-terrorism policies of the United States.

Those who lose are the parties our government should strive the most to protect and help.

To understand the effect of unilateral sanctions against Sudan, to understand how unilateral sanctions have hurt our business and the business of our customers, you must first understand the importance of this product to the U.S. economy.

Gum arabic is grown primarily in what is known as the gum belt in the southern Sahara Desert. About 80 percent of the world's gum arabic is produced in Sudan. The finest quality gum arabic comes from Sudan.

Gum arabic is a remarkable substance. There is no adequate substitute for gum arabic. It is used in products purchased every day by U.S. consumers.

In pharmaceuticals, gum arabic is used as a binder in tableting, in the flavor and beverage industries as a preferred emulsifier. Gum arabic is used to stabilize foam in the manufacture of soft

drinks and beer, and to clarify wine. Also, it is widely used in cosmetics to stabilize lotions and creams. In lithography, it is used in the preparation of etching and plating solutions. In confections, it is primarily to retard sugar crystallization and emulsify fat. In foods, it is commonly used in meats, sauces, dressings, baked goods, candies, cheeses, ice creams, icings, and numerous other food products.

Gum arabic is vital to the U.S. economy.

The next largest source of gum arabic is from Chad. Chadian gum arabic is of much lesser quality than Sudanese gum, but because of the demand created by the unilateral sanctions, the price of the Chadian gum arabic is higher than world prices for the Sudanese product. Currently, we are paying about 40 to 50 percent more for lesser quality Chadian gum than our European competitors are paying for the highly desirable Sudanese gum arabic.

It is not unthinkable that our European competitors might be bidding up the price in order to drive American processors out of business. The other U.S. gum arabic processors have addressed this issue in their submission to the Subcommittee, and we urge you to carefully consider their statement.

Recent cancellation of international orders placed with Frutarom as well as current trade data, already shows signs that the U.S. processors are losing international export markets to our French competitors. But much more threatening is the potential loss of the domestic market to France and other European competitors who have unfettered access to high-grade Sudanese gum arabic.

French import data shows that French imports of gum arabic from Sudan have doubled since the sanctions were imposed, more than compensating Sudan for the direct loss of U.S. gum arabic trade. At the same time, French exports of gum arabic to the United States have reached a record high, replacing Sudan as the leading exporter of gum arabic to the United States.

Because Chadian gum arabic is widely available from Frutarom and other U.S. processors, it seems unlikely that the sharp rise in French exports to the United States is due to a demand for a Chadian product. There can be no doubt that the French exports to the United States include high-quality Sudanese gum arabic, which has been sprayed, dried, and processed in France and exported to the States as a product of France.

Thus the only differences in gum arabic available in the United States prior to and after the imposition of the sanctions, are that the French processors have replaced the U.S. processors and that the French are now in the position to control the price of the Sudanese processed product.

We cannot match our European competitors in terms of price and quality in international markets. Examination of the United States and French trade data show a loss of export market share to the French in traditional U.S. export markets.

Frutarom has just lost a long-time customer in Asia for reasons our customers describe as a product-quality issue. Our overseas customer of many years just broke his contract with us in favor of our French competitors who are marketing the Sudanese processed product at prices the U.S. processors are unable to offer for the Chadian product.

All of the factors discussed today and all of the data submitted lead to two inevitable conclusions. As a direct result of the unilateral sanctions, United States has lost competitive position in the vital gum arabic trade both domestically and internationally. And the French have picked up the slack and thereby canceled the effect of the sanctions.

It would have been just as effective to have sanctioned U.S. gum arabic processors directly and to have turned over the business to our European competitors because this is the unintended result of the unilateral sanctions as they affect our gum arabic business.

We acknowledge that unilateral sanctions may be useful instruments of foreign policy when American interests are at stake and Americans are not unintentionally injured. But the Congress should not support the imposition of unilateral sanctions no matter how justifiable the provocation when the only parties damaged by the sanctions are Americans.

Thank you very much for allowing me to appear.

[The prepared statement follows:]

**Statement of Shirley Christian, Business Manager, Frutarom, Inc.,  
North Bergen, New Jersey**

USE AND EFFECT OF UNILATERAL SANCTIONS AGAINST SUDAN

Thank you Mr. Chairman and Members of the Subcommittee for this opportunity to testify. My name is Shirley Christian. I am pleased to testify today on behalf of Frutarom, Inc. in my capacity as Business Manager of Frutarom Meer's gum division. Frutarom is a leading processor and supplier of gum arabic in the world, and one of only three processors in the United States. Gum arabic is an essential ingredient in a wide variety of products important to the United States economy. Prior to the imposition of the sanctions, Sudan was our principal source of supply for gum arabic. Since their imposition, the importation of Sudanese gum arabic is banned.

America's unilateral sanctions against Sudan have not hurt Sudan economically. Sudan is free to trade with the rest of the world, and does. Instead, the sanctions have been felt mainly by United States gum arabic processors, who have been left without adequate alternative product sources. This has left us vulnerable to foreign competition in the United States and in international markets, and has left our customers and United States consumers subject to monopolistic practices of foreign processors.

Current trade data, which we have included with our submission to the Subcommittee, indisputably demonstrate that the Khartoum government remains unaffected by the sanctions. Gum arabic is one of Sudan's major exports. Sudan has a ready market for gum arabic throughout Europe and particularly in France, where since the imposition of the U.S. sanctions French gum arabic processors have doubled their imports from Sudan and have moved aggressively to gain market share in the United States and in our export markets.

It appears that those who benefit the most from United States unilateral sanctions against Sudan are our foreign competitors. They benefit from the failure of the United States government to first seek and enforce targeted and multilateral sanctions. They benefit from the failure of their governments to support human rights and antiterrorism policies of the United States. Those who lose are the parties our government should strive the most to protect and help.

To understand the effect of unilateral sanctions against Sudan, to understand how unilateral sanctions have hurt our business and the business of our customers, you must understand the importance of this product to the United States economy. Gum arabic is a natural gummy exudate obtained by tapping the branches of the Acacia Senegal tree. It is grown primarily in what is known as the Gum Belt along the southern periphery of the Sahara Desert. Approximately 80 percent of the world's gum arabic is produced in Sudan. Much more important to our business, the finest quality gum arabic is found in Sudan.

Gum arabic production begins with the Sudanese farmer who tends his very valuable trees throughout the year. At exactly the right time of year, determined by expertise acquired over many years, the farmer taps his trees. Gum exudes where the bark has been cut and three weeks later the first gum arabic collection is made.

Millions of Sudanese men and women, of every ethnic background, rely on gum collection as a vital source of income.

Gum arabic is a remarkable substance. It is used in products purchased every day by United States consumers. In pharmaceuticals, gum arabic is used as a binder in tableting. In cough syrups it is used as a demulcent. In the flavor and beverage industries it is a preferred emulsifier. Gum arabic is used to stabilize foam in the manufacture of soft drinks and beer and to clarify wine. As an emulsifier, gum arabic provides excellent shelf-life stability to oil-in-water emulsions and does not mask flavors with filmy texture or off-flavor on the tongue, features unmatched by synthetic additives. In cosmetics, it functions as a stabilizer in lotions and screens. Gum arabic increases the viscosity of cosmetics, imparts spreading properties, and gives a protective coating and smooth feel. In lithography, it is used in the preparation of etching and plating solutions, plate washes, and protective coatings for the plates in storage. In confections, it is used primarily to retard sugar crystallization and emulsify fat. It also is used as a glaze component in chewing gums, cough drops, and lozenges. In textiles, it is used as a fabric finish. In foods, it is commonly used in meats, sauces and dressings, baked goods, candy, cheeses, ice creams, icings and numerous other food products. The product is vital to the United States economy.

No substitutes match gum arabic's extraordinary film-foaming and emulsifying qualities. Users of gum arabic have encountered every form of disincentive to continue using this beleaguered product. Famine, drought, pestilence, wild price swings, shortages, and political crises have given the broadest opportunity for suppliers of competitive products to replace gum arabic. Synthetic imitators from modified starches and maltodextrins, and other products have been developed to take advantage of the vulnerability of supply of gum arabic, but these substitutes have failed to replace gum arabic in most pharmaceutical, food, and beverage products where taste, mouth feel, superior emulsification, low calorie value, high fiber content and extended product shelf-life are demanded by United States industries and consumers.

In the early 1970's United States gum arabic consumption exceeded 33 million pounds per year. The famine in the gum belt of 1973-1975 resulted in a tripling of gum prices and gum arabic usage was cut nearly in half. Certain bulk usage applications in non-food products were permanently replaced. We believe that most applications where gum arabic was substitutable were successfully targeted during this period.

Since the disastrous period of the 1970's, and the droughts, shortages, and price increases during the 1980's and 1990's, gum arabic usage in the United States has not diminished. The volume has actually grown roughly in line with the growth of the product category served. Periodic displeasure with the challenges of supply have led to warnings of the product's demise, but its film-foaming and emulsifying qualities have necessitated its survival. The emphasis in recent years on the importance of "natural" and "soluble fiber" have further secured gum arabic's position in the United States market.

The inability of certain industry sectors, such as the beverage, food and pharmaceutical industries, to secure high quality gum arabic would have an immediate and negative impact on the United States economy by lessening the quality of their products and reducing their sales. Competing imported products manufactured with gum arabic would gain a qualitative advantage, and thus would further damage United States producers.

Gum arabic grown in Chad holds the best promise of replacing Sudanese gum arabic, but only in the future. Current crop yields in Chad are immature and of lesser quality than Sudanese gum arabic, with viscosity levels as much as ten times higher than the levels present in the Sudanese product. Much of the gum arabic we have purchased from Chad is of viscosity levels too high to be accepted by key industry sectors which we serve. The best method of achieving an appropriate viscosity level using Chadian gum arabic is by mixing the product with Chadian gum arabic containing lower viscosity levels, or blending the product with Sudanese gum arabic. Mixing and blending are both processes which add considerable costs and can drive up the price of the customer specified product. In some instances, even after costly mixing of the Chadian gum arabic, our customers have rejected orders, causing us to begin the expensive process again with a different batch of gum arabic. But quality is not the only issue affecting Frutarom's competitive position in United States and international markets.

Because of the artificial demand created by the unilateral sanctions, and despite its lesser quality, the price of the Chadian gum arabic is higher than world prices for the Sudanese product. Currently, as a direct result of unilateral sanctions against Sudan, we are paying about 40 percent to 50 percent more for lower quality

Chadian gum arabic than our European competitors are paying for the highly desirable Sudanese gum arabic. Other factors may be driving up the price of the Chadian gum arabic. It is not unthinkable that our European competitors might be bidding up the price in order to drive American processors out of business. The other United States gum arabic processors have addressed this issue in their submission to the Subcommittee, and we urge you to carefully consider their statement.

Without authorization to import additional quantities of the Sudanese product, Frutarom and other United States processors will not be able to compete with our European counterparts in quality and price. Recent cancellation of international orders placed with Frutarom, as well as current trade data, already show signs that United States processors are losing international export markets to our French competitors. But much more threatening is the potential loss of the domestic market to France and other European competitors who have unfettered access to high grade Sudanese gum arabic.

French import data show that French imports of gum arabic from Sudan have doubled since the sanctions were imposed, more than compensating Sudan for the direct loss of United States gum arabic trade. At the same time, French exports of gum arabic to the United States have reached a record high.

Incredibly, in just one year French imports of gum arabic from Sudan jumped from 5,556 tons during 1997 to 10,701 tons during 1998. During the combined years of 1997 and 1998, French exports to the United States increased almost 60 percent over 1996 exports. French import and export data for the first quarter of 1999 is not yet available to us, but United States import data for January and February of 1999 show that France has replaced Sudan as the leading exporter of gum arabic to the United States with a record 51 percent share of the U.S. import market, substantially up from the 23 percent share for the same period in 1998. (No significant increases were found in imports from the U.K.) And as expected, United States imports from Chad increased due to the sanctions, but only to a 45 percent share of U.S. imports. If the Chadian product were of suitable quality, this number would be much higher and the French share much lower.

One concern we have with the sharp increase in French exports to the United States is that it coincides with the depletion of United States inventories of Sudanese gum arabic held by United States processors and other commercial sectors. French processors must be well aware that the United States government has not granted waivers for imports of Sudanese gum arabic for 1999 and beyond.

The French trade data for 1998 show that 51 percent of its total gum arabic imports came from Sudan, and only about 28 percent imported from Chad. Because Chadian gum arabic is widely available from Frutarom and other United States processors, it seems unlikely that the rise in French exports to the U.S. is due to a demand for a Chadian product processed in France. There can be no doubt that French exports to the United States include high quality Sudanese gum arabic which has been spray dried and processed in France and exported to the States as a product of France. Thus, the only differences resulting from the United States sanctions in gum arabic available prior to and after the November, 1997 Executive Order are that the French processors have replaced the U.S. processors and the French are now in the position to control the price of the Sudanese processed product.

We cannot match our European competitors in terms of price and quality in international markets. Frutarom just lost a long-time customer in Asia for reasons our customer described as a product quality issue. Our overseas customer of many years just broke its contract with us in favor of our French competitors, who are marketing the Sudanese processed product at prices United States processors are unable to offer for the Chadian product.

Frutarom's loss of international business is not isolated. Current trade data support the conclusion that this is a frequent occurrence. A close examination of United States and French trade data show a loss of export market share to the French in traditional United States export markets. The data show early signs of declines in exports to Mexico and certain South American countries such as Brazil, Colombia, Argentina, Chile, and Venezuela, with corresponding increases in French exports to these markets. For the combined years of 1997 and 1998, French exports worldwide increased more than 40 percent. U.S. export data show that exports of gum arabic declined approximately 15 percent in 1998, from the previous year. Due to our diminished inventories of Sudanese gum arabic, the decline in United States exports of gum arabic will continue in 1999 and become more pronounced by 2000 if the situation remains unchecked and relief is not granted.

All of the factors discussed today and all of the data submitted lead to two inevitable conclusions. As a direct result of the unilateral sanctions, the United States has lost competitive position in the vital gum arabic trade, both domestically and

internationally, and the French have picked up the slack and thereby canceled the effect of the sanctions. It would have been just as effective to have sanctioned U.S. gum arabic processors directly and to have turned over the business to our European competitors, because this is the unintended result of the unilateral sanctions as they affect our gum arabic business.

We acknowledge that unilateral sanctions may be useful instruments of foreign policy when American interests are at stake and Americans are not unintentionally injured. But the Congress should not support the imposition of unilateral sanctions, no matter how justifiable the provocation, when the only parties damaged by the sanctions are Americans.

Once again, I would like to thank the Chairman and the members of the Subcommittee for the privilege of appearing before you today. I look forward to your questions and will be happy to provide you with any additional information that your staff may need in further analyzing unilateral trade sanctions.

United States Imports of Gum Arabic  
[Quantity in Kilograms]

	1999 Jan/Feb		1998 Jan/Feb		1998		1997 (Imposition of Sanctions)		1996	
	Imports	Share	Imports	Share	Imports	Share	Imports	Share	Imports	Share
France .....	754,758	51	709,451	23	5,325,605	34	4,479,040	40	3,190,359	32
Sudan .....	0	0	2,097,000	68%	2,537,000	17%	3,564,140	33%	3,299,760	33%
Chad .....	658,182	44.6%	157,600	5%	5,640,633	37%	2,425,189	22%	1,577,053	15.7%
UK .....	24,151	1.6%	24,326	.79%	244,171	1.6%	282,374	2.6%	323,999	3.2%
Nigeria .....	20,000	1.35%	80,000	2.60%	569,442	3.72%	676,349	6.2%	639,486	6.4%
World .....	1,473,591		3,069,501		15,288,286		10,908,755		10,021,268	

\* Source: United States Department of Commerce, Census Bureau. Global Trade Database  
\*\* HTS No. 1301.20.0000



## French Imports of Gum Arabic

[Quantity in Tons]

	1998		1997		1996	
	Imports	Share [In percent]	Imports	Share [In percent]	Imports	Share [In percent]
Sudan .....	10,701.900	51	5,556.000	33	5,344.100	40
Chad .....	5,925.100	28	5,033.100	30	3,977.500	30
Nigeria .....	1,577.100	7.5	2,301.800	14	1,119.900	8
United States .....	391.100	1.9	335.300	2.0	206.000	1.5
World .....	20,965.200		16,853.200		13,199.29	

\*Source: Global Trade Information Services

\*\* HTS No. 1301.20.0000

## United States Exports

[Quantity in Kilograms]

	1999	1998	1998	1997 (Imposition of Sanctions)	1996
	Jan/Feb	Jan/Feb			
Mexico .....	14,646	22,725	182,438	129,270	208,979
Brazil .....	0	0	20,735	126,007	117,278
Argentina .....	774	678	21,580	47,686	33,897
Colombia .....	0	16,896	51,414	54,126	71,571
Chile .....	0	0	4,465	0	27,837
Venezuela .....	0	2,068	2,803	80,040	25,266
Philippines .....	0	21,284	21,284	47,183	161,854
Japan .....	8,294	8,016	62,491	228,928	247,809
World .....	225,891	225,118	2,052,068	2,384,716	2,064,877

Source: United States Department of Commerce, Bureau of Census, Global Trade Database

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The World Trade Atlas						
13012000 GUM ARABIC - France Exports						
13 LAC-VEGETABL SAP,EXTRCT - 1301 LAC,GUM,RESIN,BALSAMS						
130120 GUM ARABIC - 13012000 GUM ARABIC						
JANUARY - DECEMBER						
Rank	Country	Quantity			Units	% Change
		1996	1997	1998		
	--WORLD--	9,301,800	11,937,400	13,377,800	T	26.33 12.07
1	UNITED STATES	3,030,000	4,388,800	4,961,100	T	44.87 13.70
2	U.K.	1,340,000	1,385,200	1,178,100	T	1.88 -13.70
3	SWITZERLAND	684,200	615,800	845,200	T	-8.98 53.47
4	ITALY	469,800	665,700	760,900	T	60.66 -15.05
5	IRISH REPUBLIC	508,700	598,900	556,500	T	17.73 -7.08
6	GERMANY	361,000	344,800	542,200	T	-4.46 57.20
7	BRAZIL	153,800	150,300	305,800	T	-2.28 103.46
8	BELGIUM-LUXEM.	252,000	318,700	258,100	T	28.47 -18.70
9	NETHERLANDS	188,400	256,100	253,400	T	35.93 -1.05
10	JAPAN	78,700	169,300	240,100	T	153.24 20.47
11	MEXICO	68,600	207,000	238,800	T	131.28 14.40
12	SPAIN	210,300	212,300	235,200	T	0.95 10.79
13	ARGENTINA	100,200	128,200	222,000	T	28.94 71.83
14	PHILIPPINES	90,800	226,500	219,800	T	149.17 -3.05
15	SWAZILAND	50,000	95,000	200,800	T	90.00 111.47
16	DENMARK	122,300	183,100	178,900	T	49.71 -3.39
17	CHILE	4,000	64,500	173,900	T	###.## 105.80
18	AUSTRALIA	137,900	127,100	181,700	T	-7.83 27.22
19	NIGERIA	9,800	99,000	150,000	T	900.00 99.67
20	NORWAY	75,500	93,600	157,800	T	23.97 68.38
21	ALGERIA	89,700	62,000	117,900	T	37.93 28.15
22	SOUTH AFRICA	84,600	132,500	118,800	T	58.57 -11.72
23	POLAND	48,000	114,700	98,400	T	138.86 -15.95
24	MOROCCO	58,100	33,000	92,200	T	-43.20 179.59
25	EGYPT	81,700	114,200	90,800	T	39.78 -20.49
26	CHINA	58,300	82,100	99,800	T	40.82 -14.98
27	INDONESIA	77,700	110,000	68,200	T	41.57 -38.00
28	SOUTH KOREA	113,300	62,200	60,400	T	-45.10 -2.89
29	SWEDEN	17,400	74,300	58,200	T	327.01 -21.67
30	TURKEY	78,000	50,000	48,800	T	-35.90 -2.40
31	ISRAEL	43,100	41,500	45,300	T	-3.71 9.16
32	PAKISTAN	34,500	15,300	42,600	T	-55.65 178.43
33	ECUADOR	25,400	15,800	38,600	T	-37.80 144.30
34	PORTUGAL	41,700	43,600	35,000	T	4.56 -19.72
35	COLOMBIA	5,000	3,000	33,800	T	-40.00 ###.##
36	KENYA	16,000	24,000	32,000	T	50.00 33.33
37	HUNGARY	10,300	11,700	31,100	T	13.58 165.81
38	HONG KONG	15,500	69,300	31,100	T	347.10 -55.12
39	SLOVENIA	35,000	24,800	30,800	T	-29.14 24.19
40	GREECE	45,400	25,400	29,000	T	-44.06 14.17
41	THAILAND	14,100	4,100	28,900	T	-70.82 804.88
42	INDIA	74,000	10,800	28,200	T	-85.41 181.11
43	AUSTRIA	26,500	30,600	25,100	T	15.47 -17.97
44	RUSSIA	15,800	20,000	19,000	T	28.21 -5.00
45	SAUDI ARABIA	0,000	12,000	15,900	T	###.## 29.17
46	TUNISIA	23,700	0,700	13,900	T	-97.05 ###.##
47	FINLAND	12,200	5,000	12,800	T	-59.02 159.00
48	IRAN	14,000	29,000	11,800	T	85.71 -54.52
49	PERU	8,000	5,700	11,800	T	-38.87 107.02
50	CZECH REPUBLIC	8,800	9,000	3,700	T	42.86 7.78
51	SYRIA	14,800	4,000	8,600	T	-71.43 125.00
52	TAIWAN	4,800	8,200	8,700	T	78.26 5.10
53	ROMANIA	7,400	5,600	8,200	T	-24.32 48.43
54	SINGAPORE	21,700	23,300	7,900	T	7.37 -69.08
55	NEW ZEALAND	1,800	6,100	5,700	T	221.05 -6.69
56	VENEZUELA	99,400	7,500	5,000	T	-92.22 -33.33
57	LEBANON	1,400	3,600	3,700	T	157.14 2.78
58	SLOVAKIA	5,200	10,200	3,000	T	96.15 -70.69
59	CAMEROON	0,000	0,000	2,000	T	0.00 ###.##
60	SRI LANKA	1,000	1,500	1,500	T	50.00 0.00
61	MALAYSIA	0,000	0,000	0,400	T	0.00 ###.##
62	CYPRUS	0,000	0,000	0,400	T	0.00 ###.##

\*Source: Global Trade Services

Chairman CRANE. [presiding] Thank you, Ms. Christian.  
Mr. McMahon.

**STATEMENT OF HON. JOHN N. MCMAHON, MEMBER, BOARD  
OF DIRECTORS, LOCKHEED-MARTIN-KHRUNICHEV-ENERGIA  
INTERNATIONAL, INC., ON BEHALF OF LOCKHEED MARTIN  
CORPORATION; AND FORMER DEPUTY DIRECTOR, CENTRAL  
INTELLIGENCE AGENCY**

Mr. MCMAHON. Thank you, Mr. Chairman. I appreciate the opportunity to appear here today and offer my views on unilateral trade sanctions, focusing in particular on the *de facto* use of such sanctions by failing to lift the current trade quota on the Russian proton vehicle.

Since its inception in 1993, I have served as a member of the board of directors of Lockheed-Khrunichev-Energia International, the U.S.-Russian joint venture providing worldwide commercial satellite launch services using the proton launch vehicle system. In many cases, the United States has sought to respond to the challenges of post-cold war era with unilateral trade sanctions. However, the cost to the U.S. economy has been high.

As you yourself said, Mr. Chairman, in your opening comments, around \$15 to \$20 billion a year. And we understand by some estimates, as many as 250,000 well-paying jobs.

It would be one thing if these costs could be justified by an impressive string of victories for American security and foreign policy interests. Unfortunately, all the unilateral sanctions have achieved, as General Brent Scowcroft told this Committee last year, is, "an unblemished record of failure."

But this should come as no surprise, given the underlying premise for unilateral sanctions that if the United States acts alone in denying exports, no other nation in the world will fill the breach. Common sense tells you otherwise.

That is why I support H.R. 1244 and the efforts of those that have advocated its enactment. H.R. 1244 does not prohibit the use of unilateral sanctions, but requires a common-sense set of reforms that would impose greater discipline in the use of this instrument.

The bill is based on the proposition that U.S. interests should be pursued through vigorous and effective diplomatic, political, commercial, strategic, and other forms of engagement.

I agree.

U.S. purchase of highly-enriched uranium and our pursuit of cooperative threat reduction through the far-sighted congressional efforts launched by Senators Nunn, Lugar, and Domenici are but two successful initiatives that have exemplified the possibilities.

Another important success has resulted from our encouragement of the United States-Russian commercial space business ventures. These partnerships engage thousands of highly-skilled Russian aerospace engineers and scientists in commercial pursuits, thereby fulfilling cooperative threat reduction objectives.

Moreover, because this is being done on a company-to-company basis, there is no expenditure of public funds. And the opportuni-

ties to effect real change in the way business is carried out in Russia are significant.

In the case of the Lockheed-Khrunichev-Energia venture, as an example, our partners, Khrunichev State Research Production Space Center and its subcontractors employ some 100,000 people in the production and launch of the proton system, which in turn generates economic activity supporting 1-million Russians.

Moreover, Khrunichev has instituted a rigorous program of export control measures and is fully integrated into LKEI's market-oriented approach to the market and supply of commercial proton launch services.

I believe that the two-track system strategy that the United States has pursued, vigorously opposing Russian entities that do proliferate while promoting commercial engagement with Russian entities to provide incentives for them to refrain from proliferating or doing business with proliferators is fundamentally sound. However, the two tracks are becoming tangled with one another.

A policy of denying Russian entities not involved in proliferation activities the opportunity to provide commercial space-launch services will damage U.S. interests in the long term. In an era of shrinking defense budgets, preserving U.S. leadership in space depends on a robust commercial underpinning to the American aerospace industry.

In conclusion, Mr. Chairman, I believe that both in the specific instance of the proton space launch quota and in the broader array of unilateral sanctions, we need a more reasoned, deliberative process to increase the odds that U.S. policies will achieve their desired results.

Lifting the quota and adopting H.R. 1244 provide a strong foundation on which to build that kind of process.

Thank you, Mr. Chairman.

[The prepared statement follows:]

**Statement of Hon. John N. McMahon, Member, Board of Directors, Lockheed-Martin-Khrunichev-Energia International, Inc., on behalf of Lockheed Martin Corporation, and former Deputy Director, Central Intelligence Agency**

Mr. Chairman, I appreciate the opportunity to appear here today and offer my observations on the issue of trade sanctions as a policy tool in general; and, in particular, on the current situation involving the de facto use of sanctions on a commercial space launch venture by failing to lift the current trade quota on the Russian Proton vehicle. By way of background, I served 34½ years with the CIA culminating in the position of Deputy Director of Central Intelligence. Following my government service, I was President and CEO of Lockheed Missiles & Space Company. Since its inception in 1993, I have served as a member of the Board of Directors of Lockheed-Khrunichev-Energia International, the United States-Russian joint venture providing worldwide commercial satellite launch services using the Proton launch vehicle system. The views expressed in my testimony today are my own, but are the product of experience both in the public and private sectors in addressing the intersection of international trade policy and national security policy.

I spent a good part of my government career addressing national security issues precipitated by the Cold War between the two major superpowers. I certainly would not wish to return to that era, when the specter of nuclear confrontation hung threateningly over Europe and Communist aggression posed a continuing challenge to American interests around the globe. In some ways, though, it was a simpler time. The world divided between East and West, communist and democratic, and our principal military, economic and diplomatic assets were marshaled to preserve our advantage through our alliances, beginning with NATO. The economic complement of NATO was the Coordinating Committee on East-West trade, or CoCom. CoCom members apprised each other of prospective product sales—and agreed to let

any member government veto a sale to be made by another if that export were deemed to afford a military advantage to our communist adversaries.

These measures worked because Americans were unified and our allies were unified on the nature of the threat we faced and the kinds of measures needed to combat it, including on the trade front. We succeeded by maintaining a multilateral export control system that preserved our technological advantage over the Warsaw Pact from the era of the Berlin Airlift to the fall of the Berlin Wall.

While the end of the Cold War reduced the risk of East-West conflict, in many ways the dangers we face are no less worrisome than those we defeated—including the proliferation of weapons of mass destruction, the expanded activities of international terrorists like Usama bin Laden, the one-two punch of organized crime and narcotrafficking. It requires just as much determination and commitment on our part to counter these threats, but we must do so with less coherence and coordination among our allies. This is especially true now that CoCom has been dismantled, and there exists less consensus among the allies on who, precisely, the enemy is and how best to respond to the myriad threats we now face.

In many cases the United States has sought to respond to the challenges of the post-Cold War era with unilateral trade sanctions. A January 1998 Congressional Research Service report cited 125 measures authorizing unilateral U.S. economic sanctions targeting 30 countries. The President's Export Council identified 73 countries subjected to some form of unilateral U.S. sanction as of January 1997. That year, the International Institute for Economics concluded that unilateral trade sanctions cost the U.S. economy \$15 billion to \$20 billion a year, and that 250,000 jobs are lost from the well-paying export sector of our economy.

Some have questioned the significance of these costs. As a businessman I can tell you that these burdens are significant, not least because they tend to fall on the most dynamic and competitive parts of our economy—such as the high-tech export sector. Moreover, at issue is not simply a lost sale, but rather a lost market. America will simply be unable to maintain its global leadership in the cutting edge business sectors if we take vital markets off the table for American exporters.

It would be one thing if these costs could be justified by an impressive string of victories for American security and foreign policy interests. Unfortunately, the opposite has been the case. As General Brent Scowcroft told this Committee last year, unilateral sanctions have achieved an “unblemished record of failure.” From the Soviet grain embargo of 1980 and the Soviet pipeline embargo of 1981 until the present, the most frequent result of unilateral U.S. sanctions has been to hurt the international economic competitiveness of the United States far more than the intended targets of the sanctions, all the while strengthening our rivals and competitors.

These poor results should not be a surprise. The use of unilateral sanctions depends on a fatally flawed premise: that if the United States acts alone in denying exports, no other nation in the world will fill the breach. Common sense tells you that our foreign competitors are delighted to take away American markets whenever they can.

I do not believe that we should outlaw unilateral sanctions. The United States must have the broadest array of foreign policy instruments at its disposal. There may be times when U.S. vital interests are at stake and require that American act alone. We must not shrink from that responsibility. We should, however, think through our objectives, and the means deployed to meet those objectives, before we act.

That is why we support H.R. 1244. It does not prohibit the use of unilateral sanctions, but requires a common-sense set of reforms that would impose greater discipline in the use of this instrument. We agree that, before unilateral sanctions are imposed, the Congress and the President should assess their likely effectiveness, costs and benefits, and long-term implications for other U.S. humanitarian, security, and foreign policy interests. We should require an exploration of alternatives and of multilateral approaches.

When unilateral sanctions are imposed, we believe that it is essential that some discipline is maintained to optimize their effectiveness, and avoid having them lapse into permanent sanctions to be applied year after year even if they do not work. To that end, we support the bill's proposal to grant the President sufficient authority to waive sanctions that have been imposed. Once sanctions have been applied, the target government may rationally conclude that it may as well continue its offending conduct, having paid the “price of admission” of incurring U.S. sanctions—if there is no prospect of a waiver.

We also support the bill's provision protecting the sanctity of existing contracts, unless there is a threat to U.S. security. Without contract sanctity, American suppliers cannot provide the level of assurance needed to protect our ability to compete

in the global marketplace. We also agree with the bill's sponsors that unilateral sanctions should sunset in two years unless re-authorized. It is simply unfair to continue to penalize Americans year after year without even requiring Congress and the Executive Branch to step up to the plate by explaining and taking responsibility for their actions, so that they may be held accountable to the electorate.

Finally, we agree with the bill's premise that U.S. interests should be pursued through vigorous and effective diplomatic, political, commercial, strategic and other forms of engagement. I would like to address how we have done that in the area of combating the proliferation of weapons of mass destruction and their delivery systems.

Faced with the end of the Cold War and the break-up of the Soviet Union, both the Bush and Clinton Administrations, as well as the Congress, fully recognized new and dangerous risks associated with the proliferation of nuclear, chemical, and biological weapons and the missiles that deliver them, as well as related materials and technologies. In response, both Administrations adopted a vigorous policy of opposing dangerous transfers, while promoting cooperative programs designed to provide commercial opportunities for Russia's vast military industrial potential, so that Moscow would see its self-interest best served by cooperating with the United States rather than with rogue states. The cooperation between the United States and Russia on commercial space ventures is particularly noteworthy. In several ventures, Russian technology is being exported to American partners.

The United States has opposed dangerous transfers through a variety of means, including direct diplomatic engagement with Russia and other nations, and through the use of export controls and interdiction of illicit commerce where possible. We have promoted cooperative programs through such efforts as the establishment of the International Science and Technology Center, through which Russian weapons scientists and engineers are supported in redirecting their talents toward peaceful endeavors.

In the nuclear arena, the United States has purchased highly-enriched uranium, so that it can be diluted from weapons-grade to low-enriched uranium that can be used as commercial fuel for nuclear power stations. We have pursued cooperative threat reduction, through the far-sighted Congressional efforts launched by Senators Nunn, Lugar and Domenici.

Turning to commercial space, we have encouraged industry-to-industry partnerships in U.S.-Russian commercial space business ventures—like Lockheed-Khrunichev-Energia International (LKEI) which supplies commercial Proton launch vehicle services to the international satellite launch marketplace. These partnerships have made the world safer by engaging thousands of highly-skilled Russian aerospace engineers and scientists in commercial pursuits, thereby fulfilling cooperative threat reduction objectives. Moreover, because this is being done on a company-to-company basis, there is no expenditure of public funds and the opportunities to effect real change in the way business is carried out in Russia—to establish greater accountability and adherence to export control regimes—are significant. In the case of LKEI, as an example, our partner Khrunichev State Research and Production Space Center and its subcontractors employ some 100,000 people in the production and launch of the Proton system, which in turn generates economic activity supporting one million Russians. Moreover, Khrunichev has instituted a rigorous program of export control measures and is fully integrated into LKEI's market-oriented approach to the marketing and supply of commercial Proton launch services.

Indeed, these business ventures are far more effective than relying simply on jawboning and other diplomatic efforts to persuade Russia to steer clear of cooperation with rogue states. They create a vested interest for the Russians to conduct legitimate business in the international marketplace with us and others, instead of engaging in the black market of proliferation with those who would turn space and missile technology against American interests. By contrast, those Russian entities that have cooperated with the Iranian missile program have been subjected to Presidential sanction, and properly so.

U.S.-Russian commercial space cooperation has been good for the Russian economy, but it has also promoted U.S. interests. U.S. military superiority, and therefore our national security, depends upon our dominance of space. It has taken more than a decade for American space launch to recover in the international marketplace from the Challenger disaster. U.S. partnership with Russia—like the LKEI business which offers one of the world's most powerful payload lift capabilities available today to launch commercial satellites into high earth orbit—has contributed to that recovery. Particularly as the Pentagon turns more and more to commercial suppliers of space technology and services, it is critical that we keep America's launch and satellite industries strong.

I believe that the two-track strategy the United States has pursued—vigorously opposing Russian entities that do proliferate, while promoting commercial engagement with Russian entities to provide incentives for them to refrain from proliferating or doing business with proliferators—is fundamentally sound. Last summer, and earlier this year, the United States imposed sanctions against Russian entities found to be assisting others in the development of their ballistic missile capabilities. At the same time, to the best of our knowledge, the Russian entities that are participating with Lockheed Martin in commercial space ventures are not engaged in any proscribed activity. It is critical that we keep these incentives properly aligned.

That is why I am troubled by reports that the two tracks are becoming tangled up with one another. Specifically, the effective extension of U.S. economic sanctions from Russian entities that are engaged in illicit commerce to those that are not, by blocking the latter from conducting legitimate launches of commercial payloads, is a serious mistake.

There are two reasons why this is so. First, from a nonproliferation perspective, a policy of “shooting the hostages” will either be counterproductive, ineffective, or both. Second, such a policy will also damage long-term American interests. I will discuss each of these points in turn.

From a nonproliferation perspective, the original premise of U.S. policy—that it is in our national interest to provide peaceful civil and commercial avenues for Russian military capabilities—remains valid. To the degree that we close off those avenues, and if the Russian government becomes complacent, we risk a counterproductive result: driving our would-be Russian partners straight into the arms of whatever rogue state will pay the freight for buying Russian missile technologies, equipment and know-how. Beyond its purely financial dimension, such an approach would reinforce those within the Russian Federation who believe that Moscow’s long-term strategic interest is better served not through partnership with the United States, but rather through leveraging their nation’s diminishing economic and military strength through alliances with America’s rivals. This could better position Russia to act as a potential spoiler in relation to U.S. interests, thereby enhancing Russia’s ability to seek to extract concessions on critical issues.

Moreover, in today’s globalized economy, any U.S. effort to coerce better behavior through unilateral economic sanctions may prove to be ineffective. In the short run, if the United States blocks access to Russian launchers, customers for launch services—satellite builders and satellite telecommunications and information services providers—can and will go to Europe to buy another ride to space. Moreover, the Russian companies involved in these ventures with U.S. industry may find the lure of other partners irresistible. If that happens, U.S. “leverage” will turn to dust in our hands. Since no other nation has export controls as strict as the United States, Russia would face fewer nonproliferation constraints let alone incentives to refrain from proliferation in any such transactions. In the long run, launch services customers may very well invest in European and other launch systems in order to assure their access to space, further diminishing U.S. ability to exert meaningful leverage through coercive use of launch quotas. And the business base for the U.S. satellite industry—which has long been the undisputed leader in cutting-edge space-based information and communications technology—may erode as customers turn to our European and other foreign competitors that are not limited in their access to the full range of launch capability available in the marketplace.

This prospect leads directly to my second concern. Denying Russian entities not involved in proliferation activity the opportunity to provide commercial space launch services will damage U.S. interests in the long-term. Such a policy sends a signal not just to Russia, but to the world. It tells every nation, telecommunications company and ministry, every satellite services provider, that the United States is an unreliable partner in commercial space business ventures. The long-term strategic damage this could inflict on our country cannot be overstated. American leadership in space is vital to this nation’s economic future and, more importantly, to our ability to prevail in any future military conflict. In an era of shrinking defense budgets, preserving that leadership depends on a robust commercial underpinning to the American aerospace industry. Actions that tell customers of U.S. goods and services to shop elsewhere if they need a predictable, transparent environment in which to conduct their business play right into the hands of our already formidable foreign competitors. And the history of unilateral sanctions—as exemplified in the cases of the Soviet grain and pipeline embargoes of the early 1980s—demonstrates that markets, once lost, cannot easily be regained.

This policy—of restricting compliant Russian launch suppliers from commercial satellite launch opportunities—also calls into question for key market participants the commitment of the U.S. to execute the agreed-upon terms of its bilateral launch trade agreements. The United States-Russia Commercial Launch Services Trade

Agreement—and its key provisions, the quota on GEO/GTO launches and the pricing standard—was established to allow entry for Russian launch services providers into the international market without disruption to the market resulting from the availability of a large number of low-priced launch vehicles (i.e., “dumping”). Through LKEI, this objective has been met. LKEI has facilitated the smooth transition of Proton vehicles into the market, ensured market pricing for commercial Proton launch services and accomplished the transition of our Russian partners to market-oriented, commercial business practices. Moreover, market demand is robust and far exceeds the forecasts on the basis of which the quota was put in place in 1993 and amended in 1996. Yet, despite the fact that the terms of the launch trade agreement have been fully complied with and the trade criteria for lifting the quota have been met—and, further, despite the fact that our Russian partners are not engaged in proliferation—the Administration refuses to execute the provisions of the agreement to lift the quota. In holding the quota hostage to the proliferation issue, under these circumstances, U.S. credibility to make and keep its trade-related commitments may be seriously compromised.

We need to be clear-eyed and steady as we pursue America’s long-term strategic objectives. We should continue to encourage Russian entities to cooperate with us in peaceful applications of space and missile technology. We should continue to press the Russian Federation to take all necessary steps to curtail any assistance that other Russian entities are providing to rogue states’ missile programs. This should include working cooperatively with Moscow on such measures as enhancing its own export control system and, where necessary, impose sanctions against the offending entities as we have in the past. It also requires working with our allies to avoid falling into a trap where, in the name of nonproliferation, we end up with exactly the result we are trying to avoid and, in the process, push the United States to the sidelines of space, to our lasting disadvantage.

In conclusion, Mr. Chairman, I believe that—both in the specific instance of the Proton space launch quota and in the broader array of unilateral sanctions that have been imposed or proposed to advance a variety of worthy American goals—we need a more reasoned, deliberative process to increase the chances that U.S. policies will achieve their desired results. The sanctions reform legislation before you provides a strong basis to begin to build that kind of process. Consistent with the intent of the legislation, lifting the quota on commercial Proton launch services now, by preserving the LKEI venture, will yield significant economic and national security benefits to the United States.

Thank you.

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Chairman CRANE. Thank you.  
Mr. Hamod.

**STATEMENT OF DAVID A. HAMOD, U.S. REPRESENTATIVE,  
AMERICAN BUSINESS COUNCIL OF THE GULF COUNTRIES**

Mr. HAMOD. Thank you, Mr. Chairman, for the opportunity to testify today. The American Business Council of the Gulf Countries consists of the nine American chambers of commerce in the Gulf Cooperation Council nations, representing the more than 700 U.S. companies with operations in the region. This non-profit, non-partisan organization is composed primarily of small- and medium-size companies, and is widely recognized as the voice of American business in the Gulf region.

And on a personal note, Mr. Chairman, we greatly appreciate the time you have spent with our doorknock delegations when they have come to visit Washington.

Mr. Chairman, throughout much of the past decade, exports have served as the engine of growth for the U.S. economy. Increased globalization and widespread use of the Internet means that the international marketplace is literally in America’s living rooms like at no other time in U.S. history.



This also means that the U.S. Government's international trade policies are having more of an impact on local communities in the United States than ever before. America's reputation as the world's leading proponent of free and fair trade is on the line, as are the jobs of millions of Americans whose livelihoods now depend on global commerce.

Over the years, the United States has increasingly resorted to the use of unilateral economic sanctions as a cure-all elixir. However, experience shows that elixirs and snake oils, no matter how elegantly they are packaged or how aggressively they are marketed, rarely achieve satisfactory results.

From our perspective, as U.S. business leaders overseas, America's sanctions process is deeply flawed. From where we sit, these policies appear to be erratic, ineffectual, and based more on knee-jerk diplomacy than on a careful and realistic analysis of the likelihood of success and the economic costs and benefits to the United States.

The imposition of unilateral economic sanctions may play well for certain audiences and constituencies within the United States, but it carries adverse circumstances for U.S. companies, American citizens, and the reputation of the United States around the world.

Mr. Chairman, America's trade competitors are laughing all the way to the bank because unilateral U.S. sanctions eliminate the American competition. Here are just a few instances of lost business in Iran, for example, as a result of U.S. sanctions.

- Federal Express had to discontinue courier service to Iran while its non-American competitors tout the fact that they are able to serve the burgeoning Iranian market.
- Fuji film, produced by Japan, has replaced America's Kodak film in Iran, which had been a major and lucrative market for Kodak for decades.
- McDermott had to withdraw recently from a major fabrication tender, which its Korean competitor was then able to win at greatly inflated prices.
- American President Lines had to discontinue its extensive container service to Iran, where it was then replaced entirely by NYK of Japan and P&O of Europe.

Unilateral sanctions also take their toll on Americans abroad because they apply directly to individual U.S. citizens. In the hard-nosed world of business, most foreign employers are not especially tolerant of unilateral U.S. policies, and the result is that American employees are being replaced by non-Americans who can get the job done in sanctioned countries.

Under virtually no circumstances, in the ABCGC's opinion, should expansive U.S. sanctions be applied directly to individual U.S. citizens. In most cases, these Americans abroad are merely trying to hold down a job and are not in a position to prevent foreign transactions by foreign companies.

The significance of this Gordian knot goes far beyond the loss of jobs in the Gulf. European and Asian companies, which no longer need to worry about competing against U.S. companies in places like Iran, are winning very lucrative contracts there and using their large profit margins to subsidize their bids and operations elsewhere in the world.

Looked at another way, U.S. companies are being penalized by America's sanctions not just once, but multiple times.

This is a lose-lose situation that threatens U.S.-based jobs and American leadership around the world. From our perspective in the Gulf, ILSA is a toothless paper tiger. It frightens none of our trade competitors who routinely thumb their noses at the United States and who scoff at America's efforts to enforce extraterritorial laws. ILSA is unworkable, it is applied inconsistently, and it has failed to achieve even the most modest of successes.

Mr. Chairman, the ABCGC strongly supports H.R. 1244. We believe that this type of legislation is long overdue, and we consider it an important first step in rationalizing and establishing workable guidelines for America's use of sanctions.

In conclusion, Mr. Chairman, the imposition of unilateral economic sanctions is a blunt instrument that has often been used when a more strategic weapon in the arsenal of U.S. trade policy would have been more appropriate.

The ABCGC believes that such "big-stick diplomacy" must be used very sparingly, and even then, it should be employed only in a measured, predictable, and targeted way.

With this in mind, the ABCGC supports H.R. 1244 and this Subcommittee's efforts to rationalize America's sanctions process, enhance U.S. global competitiveness, and level the international playingfield for U.S. companies and American workers.

Thank you, Mr. Chairman, for the opportunity to testify.

[The prepared statement follows:]

**Statement of David A. Hamod, U.S. Representative, American Business Council of the Gulf Countries**

EXAMINING U.S. UNILATERAL ECONOMIC SANCTIONS

Thank you, Mr. Chairman, for the opportunity to testify today. My name is David Hamod, and I serve as the U.S. Representative of the American Business Council of the Gulf Countries (ABCGC). The ABCGC consists of the nine American Chambers of Commerce in the Gulf Cooperation Council (GCC) nations of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Our organization, representing the more than 700 U.S. companies with operations in the region, is widely recognized as the voice of American business in the Gulf. Affiliated with the U.S. Chamber of Commerce, the ABCGC is a non-profit, non-partisan organization composed primarily of small and medium-sized enterprises (SMEs). ABCGC chapters are actively involved in the American communities throughout the GCC, where they serve as a resource to the public and private sectors and work with the U.S. Government to enhance America's business competitiveness overseas.

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Mr. Chairman, throughout much of the past decade, exports have served as the engine of growth for the U.S. economy. As a result of these exports, millions of new jobs were created in the United States, and tens of thousands of American companies that once did business only in the USA are now selling U.S. goods and services in foreign markets. Increased globalization and widespread use of the Internet means that the international marketplace is literally in America's living rooms like at no other time in U.S. history.

This also means that the U.S. Government's international trade policies are having more of an impact on local communities in the United States than ever before. America's reputation as the world's leading proponent of free and fair trade is on the line, as are the jobs of millions of Americans whose livelihoods now depend on global commerce. As a result of this deeper commitment to American business around the world, decisionmakers at both ends of Pennsylvania Avenue are looking more carefully at policies that will affect U.S. competitiveness in foreign markets for decades to come. It is in this spirit, Mr. Chairman, that you have called us together, and we are pleased to appear before your subcommittee this morning.

*Unilateral Economic Sanctions: A Cure-All Elixir?*

In an effort to send a range of political messages and to encourage what the United States deems to be acceptable behavior, the United States has increasingly resorted to the use of unilateral economic sanctions. More than any other country in the world, the U.S. employs such sanctions as a foreign policy weapon, imposing unilateral economic sanctions on some countries for transgressions in such fields as narcotics, terrorism, human rights, religious rights, and the spread of chemical, biological, and nuclear weapons. The ABCGC supports many of these objectives, of course, but not through unilateral economic sanctions—which have consistently failed to accomplish their economic and political goals. Moreover, according to the President's Export Council, the direct cost of economic sanctions to the U.S. economy during the period 1993 to 1996 amounted to \$15–\$19 billion in lost export sales per year and as many as 250,000 U.S. jobs annually.

*Fighting Dictators and Despots*

Like most Americans, the thousands of members who make up the ABCGC oppose the world's dictators, despots, terrorists and drug dealers. We are against violations of fundamental human rights, and we have as strong a reaction as anyone to brutal regimes whose policies undermine the rule of law and fly in the face of basic decency. As U.S. citizens living and working overseas, we understand—perhaps better than even our families “back home” in the States—the need to combat those leaders and nations that are actively working against the interests of our country. The ABCGC recognizes the importance of the United States leading the world not just economically, but ethically and morally as well.

With this in mind, and in the context of sanctionable activities, the American Business Council of the Gulf Countries:

- Encourages U.S. initiatives for multilateral sanctions that address U.S. national security and foreign policy objectives, and which include America's key allies and trading partners;
- Supports U.S. controls on exports of certain weaponry and advanced & sensitive technology, and encourages U.S. prohibitions on support for and dealings with known drug dealers and terrorist organizations;
- Recognizes the right of the United States to curtail aid and to oppose other forms of government support for countries acting against U.S. interests; and
- Respects the right of the United States to deny access to our country, for national security and other legitimate reasons, for certain foreign individuals and government officials.

In short, the ABCGC supports multilateral economic sanctions and U.S. Government actions that can realistically serve as an effective foreign policy tool for changing the behavior of oppressive and antagonistic regimes around the world. We cannot agree, however, with the broad unilateral economic sanctions regimes of the United States—whether imposed by statute or by executive order—that so often produce no more than a “feel good” domestic public relations effect.

*Shortcomings of Unilateral Economic Sanctions*

From our perspective, as U.S. business leaders overseas, America's sanctions process is deeply flawed and out of control. From where we sit, these policies appear to be erratic, ineffectual, and based more on “knee jerk diplomacy” than on a careful and realistic analysis of the likelihood of success and the economic costs and benefits to the United States. Too often, such sanctions represent not a policy, but the absence of a policy—a reaction to frustration, or worse. The imposition of unilateral economic sanctions may play well for certain audiences and constituencies within the United States, but it carries adverse consequences for U.S. companies, American citizens, and the reputation of the United States around the world.

Should America remain silent in the face of evil or injustice? Of course not. Quite to the contrary: the United States, as the world's economic engine and its only remaining Superpower, is uniquely positioned to sound the alarm. The real question is whether America's power will be frittered away on simplistic solutions for short-term political gains, or whether our nation's leaders will use this power wisely to achieve the desired results and to enhance America's clout and prestige.

The ABCGC opposes unilateral economic sanctions because they are: (1) Ineffective; (2) Harmful to America's reputation; (3) Undermining U.S. economic interests; (4) Taking their toll on U.S. citizens. These four shortcomings are discussed below.

(1) *“If It Don't Work, Don't Use It!”*. Our direct experience, which is borne out by an increasing amount of professional, academic and governmental analysis, supports the conclusion that unilateral sanctions programs are *not* effective in changing the behavior of foreign governments. Because our trading partners do not join America's

unilateral sanctions efforts, our prohibitions on trade and investment do not cut off the flow of goods and services to the target country. Further, they often allow the targeted government to rally domestic support by “standing up” to the Superpower and blaming domestic problems on U.S. actions. Finally, because U.S. businessmen and businesswomen are unable to communicate and develop personal relationships with their commercial counterparts in the targeted countries, these sanctions eliminate an important avenue for Americans to explain and justify U.S. positions to citizens of the targeted countries.

(2) *Harming America's Reputation and World Standing.* America's use of broad unilateral economic sanctions programs is undermining our nation's moral authority and leadership position, earned over the past century at great human sacrifice and economic cost. Too often, the United States appears to act internationally in response to partisan or parochial considerations at home and without due regard for international opinion. In our headlong rush to impose unilateral economic sanctions, America has often been seen as maintaining a double standard. America's reputation for thoughtful, considered policies has suffered, too, when the United States has ignored the likely consequences of our country's actions.

(3) *Undermining U.S. Economic Interests.* Our European and Asian allies welcome unilateral U.S. sanctions programs because these programs eliminate the American competition. In the Gulf region, the loss in sales of U.S. goods and services, which are readily available from America's international competitors, is obvious. As a result of unilateral U.S. sanctions imposed on Iran, for example:

- Federal Express had to discontinue courier service to Iran, while its non-American competitor, DHL, ran advertisements in the region touting the fact that it was able to serve Iran while its unnamed competitors could not;
- Fuji film, produced by Japan, has replaced America's Kodak film in Iran, which had been a major and lucrative market for Kodak for decades;
- McDermott had to withdraw recently from a major fabrication tender, which its Korean competitor was then able to win at greatly inflated prices;
- American President Lines had to discontinue its extensive container service to Iran, where it was then replaced entirely by NYK of Japan and P&O of Europe.

The effects of unilateral economic sanctions extend far beyond the targeted countries. Dubai, for example, is an international entrepot, with American, European, and Asian goods being re-exported to numerous countries in the region, in Africa, and in the former Soviet Union. An American company exporting standardized goods or commodities to a Dubai trader cannot be certain whether its goods will be re-exported to a sanctioned country, such as Iran or Sudan, or to one of the many non-sanctioned countries with which most Dubai traders do business.

Because of the risk of an inadvertent violation of U.S. sanctions regulations, some U.S. exporters simply decline to do business in the GCC nations. Moreover, because of the risk that a U.S. exporter might have to terminate a supply contract due to the imposition of unilateral U.S. sanctions, some Dubai traders are discouraged from marketing American products or doing regular business with American companies.

(4) *Taking Its Toll on U.S. Citizens.* Most U.S. economic sanctions programs apply directly to individual U.S. citizens, regardless of their residence, job title, or the nationality of their employers. The regulations prohibit Americans from being involved in any way in a business transaction with a U.S.-sanctioned country. The result is to encourage foreign companies to replace their expatriate American employees with non-American employees.

For example, European, Asian, and Gulf-owned companies do business with Iran. U.S. citizen employees of these foreign companies violate U.S. law, according to the U.S. Treasury Department's Office of Foreign Assets Control (OFAC), if they participate in a meaningful way in any aspect of their employer's business transactions with Iran (or any other sanctioned country). According to OFAC, if a non-U.S. company in Dubai does business with Iran, any U.S. citizen employees of that foreign company should recuse themselves from any involvement in these transactions.

Unfortunately, in the real world of business, most foreign employers are not especially tolerant of unilateral U.S. sanctions programs. If a U.S. citizen employee advises his non-American boss that any paperwork or decisions relating to Iran must be passed to a different employee, or if he suggests that a new employee be hired to handle these issues, the response is usually simple—the American loses his job to another national. Most non-U.S. companies will neither decline Iranian business nor hire duplicative employees to accommodate a U.S. citizen who is trying to comply with a unilateral U.S. sanctions law applicable only to him. The American employee is faced with a difficult dilemma: lose his job, or violate OFAC's regulations (and OFAC does enforce these regulations against individual U.S. citizen employees of foreign companies).

The significance of this Gordian knot goes far beyond the direct loss of jobs in the Gulf. The ABCGC encourages the hiring of U.S. citizens by local and international companies in the region because they generate jobs in the United States. American employees overseas have a history of buying American, selling American, specifying American, and creating opportunities for other American companies and workers. U.S. unilateral sanctions programs, by applying prohibitions directly to U.S. citizens employed outside the United States by non-American companies, defeats that effort to “promote American” without scoring any meaningful U.S. foreign policy or national security gains.

#### *The Specter of Sanctions Proliferation*

In recent years, the ABCGC has grown increasingly concerned about the proliferation in the United States of unilateral economic sanctions initiatives, which are now being pursued by government officials at the State and local levels. Such unbridled, myopic policymaking damages America’s credibility as the world’s leading proponent of free and fair trade, and it prevents U.S. companies from doing business in foreign markets that want to purchase U.S. goods and services. In the end, this is a lose/lose situation that threatens U.S.-based jobs and American leadership around the world.

Examples of this “seat of the pants” policymaking abound. For purposes of today’s testimony, it will suffice to mention just two laws that affect U.S. business and American interests in our part of the world: the Iran and Libya Sanctions Act (ILSA) of 1996, and the International Religious Freedom Act (IRFA) of 1998.

(1) *Iran and Libya Sanctions Act (ILSA)*. ILSA (P.L. 104–172), rushed through Congress with great fanfare in 1996, has proved to be a toothless paper tiger. It frightens none of our trade competitors, who routinely thumb their nose at the United States and who scoff at America’s efforts to enforce extraterritorial laws. Nor has ILSA had any perceptible effect on political leaders in Iran and Libya, who continue to cut deals with foreign powers whose interests are diametrically opposed to those of the United States. And as ABCGC member companies like Conoco and Mobil can attest, ILSA continues to preclude U.S. businesses from securing major contracts that would create thousands of jobs in the United States.

Since ILSA became U.S. law, ABCGC member companies have also noticed a disturbing “piggyback” phenomenon. Foreign companies, which no longer need to worry about competing against U.S. companies in Iran, are winning very lucrative contracts there. Once they have their foot in the door in Iran, these European and Asian companies are using their large profit margins there to subsidize operations elsewhere in the world. These subsidies are undercutting U.S. firms in other markets—in the Gulf and beyond. In other words, U.S. companies are being penalized by ILSA not once, but multiple times, because of their inability to compete and win contracts in Iran.

In short, Mr. Chairman, ILSA is a shambles. It is unworkable, it is applied inconsistently, and it has failed to achieve even the most modest of successes.

(2) *International Religious Freedom Act (IRFA)*. U.S. citizens working in the Gulf, like most Americans, support carefully thought out efforts to combat discrimination and persecution of all types—including those based upon one’s religious beliefs. Freedom of religion is a hallmark of American culture and society, and it is something that each of us cherishes.

Nevertheless, the ABCGC is concerned about how the International Religious Freedom Act (P.L. 105–292) will be applied in the months and years ahead. Telling other nations how to conduct their religious affairs is a tricky business, one that could blow up in America’s face. The roots of this law can be traced to U.S. domestic politics, and the ABCGC remains concerned that IRFA could become a political tool that goes far beyond the laudatory purposes for which the law was written.

The ABCGC wrote to Congress last year to express concern that implementing IRFA could:

*Jeopardize U.S. exports to the Gulf.*—If used for political purposes, IRFA has the potential to threaten more than a quarter million U.S.-based jobs that are directly linked to U.S. exports of goods and services to the GCC. There is little doubt that Gulf countries, rather than succumbing to U.S. pressure over religious affairs, would shift market share away from American companies to our European and Asian competitors instead.

*Undermine the precarious Middle East peace process.*—Gulf nations are expecting to be targeted by what they perceive as a highly politicized process for monitoring religious persecution. Under the circumstances, GCC states will be less inclined to follow America’s lead on regional cooperation if they are being attacked on religious issues by the very same U.S. Government that is encouraging them to take bold steps toward peace.

*Threaten existing religious tolerance.*—In the GCC nations today, Americans are free to practice the religion of their choice, provided that it does not offend local customs. If the United States puts pressure on the Gulf countries over religious issues that are widely regarded in the GCC as internal matters, it is very conceivable that there will be a negative reaction against current religious freedoms enjoyed by the American communities in the Gulf.

*Encourage religious extremism.*—Unless properly implemented, IRFA may convince religious extremists throughout the world that the United States is attempting to serve its own particular religious preferences rather than the cause of religious freedom. This would be counter-productive, to say the least, and could lead to serious unintended consequences in the Gulf and elsewhere.

Polymakers in Congress and the Clinton Administration worked hard last year to craft a compromise law that could be used to combat religious persecution. The ABCGC is counting on the U.S. Government to adhere to commitments made last year and to rein in any efforts to politicize this new law. Domestic jobs, American lives overseas, and U.S. interests around the world are on the line, and it would be a serious mistake to put these in jeopardy.

#### *ABCGC's Position on H.R. 1244*

Mr. Chairman, the ABCGC strongly supports H.R. 1244, the "Enhancement of Trade, Security, and Human Rights through Sanctions Reform Act." We believe that this type of legislation is long overdue, and we consider it an important first step in rationalizing and establishing workable guidelines for America's use of sanctions.

The ABCGC is a business organization, and we see the world through the prism of business. As such, we look upon H.R. 1244 as a "contract" between America's public and private sectors—a pact that encourages U.S. commercial interests yet, at the same time, recognizes the role to be played by economic sanctions. As businessmen and businesswomen, we appreciate the cost / benefit features of the bill, the focus on developing a plan of action before leaping headlong into the fray, the commitment to contract sanctity, the need to provide appropriate justifications for sanctions activity, and the ability to give our country's "CEO"—the President of the United States—the flexibility he needs to adjust policies to meet changing economic and political conditions.

In our estimation, H.R. 1244 affects American business more than anyone else, and we appreciate the fact that this bill takes into consideration the needs and concerns of U.S. companies. H.R. 1244 adopts a no-nonsense, common sense approach to reforming the sanctions process, and we see this as a key step in providing policymakers with "big picture" information that will enable them to make better informed decisions affecting U.S. commercial interests worldwide.

Perhaps our only regret, Mr. Chairman, is that H.R. 1244 and its counterpart bill in the Senate, S. 757, envisage guidelines that are non-binding. The sooner that we can put "sharper teeth" behind these proposed ground rules, the better.

#### *Conclusions*

The imposition of unilateral economic sanctions is a "blunt instrument" that has often been used when a more strategic weapon would have been more appropriate. The ABCGC believes that such "big stick" diplomacy must be used very sparingly, and even then it should be employed only in a measured, predictable, and targeted way.

If engagement and dialogue are deemed to be ineffective, then the United States should pursue multilateral sanctions, restrictions on U.S. and multilateral government aid and, if appropriate, restrictions on sales of specific products that are being used against American will or interests. The objectives of the sanctions must be clearly stated, but not necessarily in the form of public ultimatums.

The ABCGC believes that unilateral economic sanctions should only be employed as a weapon of last resort in the arsenal of U.S. foreign policy. Only in extreme situations, after all other options have failed, should the U.S. Government impose such broad prohibitions—and only if positive results can realistically be achieved. Under virtually no circumstances should expansive U.S. sanctions be applied directly to individual U.S. citizens, who in most cases are merely trying to hold down a job and are not in a position to prevent foreign transactions by foreign companies.

With this in mind, the ABCGC supports H.R. 1244 and this subcommittee's efforts to rationalize America's sanctions process, enhance U.S. global competitiveness, and level the international playing field for U.S. companies and American workers.

Thank you, Mr. Chairman, for the opportunity to testify today. I would be pleased to answer any questions raised by you or other members of this subcommittee.

Chairman CRANE. Thank you, Mr. Hamod.

There are many folks, especially colleagues, that insist that there are situations in which economic leverage can be an appropriate tool in foreign policy. Can any of you folks cite an instance where such leverage has been effective?

Mr. HAMOD. I can't speak for the other American chambers of commerce. I do believe that our policy in South Africa made a difference, but that wasn't unilateral economic sanctions, that was multilateral sanctions. And in our experience, the unilateral sanctions do not work.

Chairman CRANE. Well, that, frankly, has been my conviction all along. I am not opposed to sanctions, but unilateral sanctions are, to me, just absolute stupidity, especially in the kind of world economy, global economy we live in today where all these alternatives are out there and bidding and salivating over a chance to replace us.

And just as you mentioned with Kodak versus Fuji, it is this sort of thing where we shoot ourselves in the foot, it seems to me. And while that may be politically effective when the bill comes up for a vote in selling it to your constituency back home, getting those things off the books is not easy. And most folks back home haven't the vaguest idea what the impact is to our economic interests.

So we have a major educational effort on our hands.

Mr. Kinzer, in your statement, you mentioned that our foreign competitors charge their marketing practices to adjust to U.S. unilateral economic sanctions, and in particular you cite Canada and Australia. Can you elaborate on that point?

Mr. KINZER. Well, sir, there is quite a bit of evidence, although it is very hard to gather because the State trading enterprises used in Canada and Australia are not transparent. So we don't get any of the information that we would love to see. But it is apparent to us just by how much wheat is being bought in Pakistan and Egypt and other countries that we do deal with, it looks suspiciously that the State trading enterprises in Australia and Canada, perhaps, charge more to countries like Iran that are, that have been under the trade sanctions and embargoes and what else.

And then they can undercut us when we get to Pakistan and Egypt. And because of their ability to go over and act as salesmen, it may only be a dollar or two per ton, but then we look at what their growers are receiving afterward and their growers are receiving as much as our growers do if not more.

So it looks very suspicious to us that they are predatory pricing us out of our markets.

Chairman CRANE. Ms. Christian, are you able to get the quantity and quality of gum arabic that your customers demand from sources other than Sudan?

Ms. CHRISTIAN. We can get Chadian gum; it is of a lesser quality. I have a problem with it. I have to blend Chadian. It comes in a very high viscosity; it comes in a range of about 2,000 cps, and to make a good product, I need 200 cps. So I am constantly blending, and there is a lot of waste. And it has been a real problem.

Chairman CRANE. And is the quantity, though, available? All the quantity you—

Ms. CHRISTIAN. Yes, but I have to buy more in order to get what I need.

Chairman CRANE. What is the estimated increase in the cost of your product because of this? What percentage increase?

Ms. CHRISTIAN. It does not appear to seem like much, but it could be as much as 10 cents a pound, which could make or break me.

Chairman CRANE. Yes. If you are not able to obtain a waiver for gum arabic from the sanctions on Sudan, will you be able to maintain your business operation?

Ms. CHRISTIAN. I am losing it constantly. I am absolutely losing my business. I have lost three major companies this year, and I don't see anything for the year 2000 and 2001. And they have told me that they cannot resist the price that the French are offering.

Chairman CRANE. Mr. McMahon, Lockheed Martin is involved in a high-tech joint venture with a Russian partner, how do you ensure that the Russians do not acquire technology they can use to bolster their own military capabilities and/or sell to rogue countries like Iran?

Mr. MCMAHON. The beauty of our arrangement is that we have a firewall, so to speak, between the booster and the satellite. And what we are using is Russian technology for the booster, and the satellites that we acquire around the world for launch, or market around the world to launch, come and are integrated. And there is no getting into the satellite itself on the part of the Russians.

In fact, we do find that we are the importers of Russian technology. In another joint venture we have with the Russians, we are using their RD-180, built by an Ergomash and going to use it in the EELV that the Department of Defense has us building. Boeing builds some, and we build some. So in that case, it is reverse technology. And this engine is the finest engine in the world.

If I may, Mr. Chairman, go back to your original comment. We, in the Lockheed-Khrunichev venture are not under a unilateral sanction as stated, but in essence that is what we are living with now. We had a quota of 15 vehicles that we could market to geostationary orbit. We have now sold all of those. So we have not been able to sell another system in the last 8 months.

And our quota expires with the launch this fall. So, in essence, we are under a unilateral sanction right now, and we are losing business to the French, particularly to the Ariane launch vehicle. So in essence, this quota that we are under right now is putting our joint venture out of business if we don't get it lifted.

Chairman CRANE. Mr. Hamod, what has been the experience of U.S. business in the Persian Gulf region since the enactment of the Iran-Libya Sanctions Act 3 years ago, and has the sanctions Act succeeded in deterring investment in Iran?

Mr. HAMOD. In our experience, Mr. Chairman, the real penalty is being used against American companies and American workers. We see no let off in international business going into those markets. But what we do see is that American business is losing out.

You have heard us say it before, Mr. Chairman. From our perspective, Americans abroad equal U.S. exports equal U.S. jobs. And



when you put Americans in overseas markets, they buy American, they sell American, they specify American, and they create opportunities for American companies.

We are losing out under the current circumstances, and we hope that that might change.

Chairman CRANE. Thank you very much. Mr. Levin.

Mr. LEVIN. Well, thank you for your testimony. It is illuminating. Just two quick points.

I do think we have to be careful between, careful in distinguishing between the impact of sanctions and the absence of effective mechanisms to help exporters, like effective Ex-Im programs. Mr. Bowe, I think that part of your testimony relates to sanctions, but part of it also shows that this country needs to be very effective in supporting those who are competing with entities from other countries, where those countries have subsidization of financing mechanisms that it is hard for us to compete with.

And then maybe the last comment, and this may be a good segue to our last panel, I think we have to ask ourselves whether if 1244 had been in effect, it would have been any difference in result as to Iran or Libya. And it may be, Mr. Hamod, that your testimony really gets down to the issue of whether unilateral sanctions should ever be available, because my guess is that 1244, especially as we have discussed some changes with the Administration but even internally, if it had been in effect I don't know that there would have been any different impact.

So, we need to really ask ourselves whether there are occasions when the United States must act when nobody else is willing to. And don't try to answer it now. It is too difficult to do it in 2 minutes.

I don't mean to throw an unfair question. But I think that question does really help to flush out what our basic attitude is: Are we really opposed to unilateral sanctions, period, or do we really favor their availability under restricted circumstances?

But anyway, why don't we let the next panel discuss that. Thanks very much for your testimony.

Chairman CRANE. Let me express appreciation to all of you for participation and the information that you have provided to the Committee. And God willing, we will make progress beneficial to one and all.

[Pause for next panel to come to table.]

And we will proceed in the order in which I introduced you all. Dr. Weintraub, you are first.

**STATEMENT OF SIDNEY WEINTRAUB, PH.D., WILLIAM E. SIMON CHAIR IN POLITICAL ECONOMY, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES**

Mr. WEINTRAUB. Mr. Chairman, thank you very much for having me here today, for holding these hearings. My institution—I am at the Center for Strategic and International Studies—completed a study just recently. We had spent about a year and a half on the study. And there were three components to it, one of which was detailed case studies of five countries where we used unilateral sanctions. The five countries were Burma, Cuba, China, Iran, and Vietnam. I will give you some of the conclusions in a few moments.

The second element was a study on alternatives to the use of unilateral economic sanctions. And the conclusion there was, as my full statement says, that almost all of them fail almost all of the time. That means that occasionally—if you want I can cite some specific cases—they have worked, but not many.

And finally, a policy paper, which is called “Altering U.S. Sanctions Policy.” I have copies of these, and I have summaries.

Let me make a point on a few key issues and summarize very quickly what we concluded in those studies and then what I believe personally.

The policy report, and I personally, support the substance of H.R. 1244. That point is explicit in the policy paper that CSIS has produced. We do not oppose the imposition of unilateral economic sanctions in the conduct of U.S. foreign policy. We think there is a place for them at times; we think it is a limited place. And I will come back to that soon.

I’ll do it right now. Trying to deal with the very point that Mr. Levin raised toward the end of his comments about ILSA and what was done there. What we—our research—found is that when you use what I would like to abbreviate as CUES, Comprehensive Unilateral Economic Sanctions, we really could not find a single case where they achieved their stated foreign-policy objective.

We found cases where cues hurt countries, and hurt a good many people, but if you define what the foreign policy objective was when the process started, we didn’t find a single case of success.

It may well be that occasionally when we start with unilateral sanctions, comprehensive ones, they mutate into multilateral ones. But I think you would be hard-pressed to find another example other than South Africa. That is the one that is always cited, because it is the only one that I think you can list.

This means, therefore, that if we are going to impose unilateral economic sanctions, that they rarely should be comprehensive. They may have to be comprehensive when you are fighting a war, as in Iraq, but there we have support from other countries.

In most cases, we have concluded there are alternatives that are superior and less costly than sanctions, particularly CUES, the comprehensive kind. That really means that continued engagement with offending states is better than cutting off practically all economic and political relations with them, which is really what comprehensive economic sanctions imply.

I don’t want to get sidetracked on Cuba because that gets too emotional—but I don’t understand why we cutoff communications, tourism, the movement of people there, which is probably the best way you can get information about the United States to a country.

The conclusion our study reached was that if we are going to use sanctions, we should come to this at the end of the day, as a last resort, not the first.

Let me summarize in a sort of philosophical way, the main conclusions that we reached. One is that it really is that the United States frequently takes actions that it would not take if a cold-blooded analysis were done first, before imposing the sanctions. In the first book on case studies of comprehensive sanctions, we discovered the United States never once in advance made a complete

assessment of what the effects would be either on the United States or on the country which was being sanctioned.

The sanctions are imposed hurriedly and a lot of actions get taken that I don't think we would take in the light of clear, thoughtful analysis.

Let me give you four or five examples of these and then I will quit.

We know that economic sanctions, particularly the comprehensive type, hurt most the most downtrodden part of the population in the country where they are imposed. This was the Pope's point when he went to Cuba. In Haiti, the consequences of some of the things we did are hurting the poor in that country to this day.

In other words, I assume the U.S. public doesn't favor punishing poor people in the target country, particularly in dictatorships, because they are already being punished. Yet that is the outcome in case after case.

The second thing we do, which I don't think sensible people would do, if they thought it through, is to isolate the United States from its major allies. And that is what we do when we act extra-territorially. We cite in our report a United Nations General Assembly vote last October when only one country, Israel, supported the United States on the extra-territoriality issue. All of our other allies differed with us.

You have heard over and over again from the previous panel that our sanctions punish individual businesses—U.S. producers—when we impose sanctions unilaterally. And I don't think the members of Congress want to do that, want to take action that punishes our own people.

It would hardly be a policy of the United States to make our country look ineffective, and yet—if our conclusion is right, that comprehensive sanctions don't work, and only rarely do targeted sanctions work—that is exactly what we are doing.

And finally, I don't think it would be a wise policy to subordinate all issues in any country to a single offense, and frequently that is what unilateral sanctions accomplish.

I guess the conclusion we have reached is that before we take actions, we would hope our Congress and the Administration have carefully looked at the consequences of what they are doing, that they have looked in advance, in some careful way, what they are doing. That, I take it, is the objective of the proposed legislation.

Thank you.

[The prepared statement follows:]

**Statement of Sidney Weintraub, Ph.D., William E. Simon, Chairman  
Political Economy, Center for Strategic International Studies**

The Center for Strategic and International Studies recently completed a three-part examination of the use of unilateral economic sanctions by the United States. The project, which took place over an 18-month period, produced three publications which the Center believes are pathbreaking because they examine the use and effects of unilateral sanctions from many perspectives. The three publications, which are available from CSIS, are the following:

- Ernest H. Preeg, *Feeling Good or Doing Good with Sanctions: Unilateral Economic Sanctions and the U.S. National Interest*. This book examines the use of unilateral sanctions by the United States in five countries—Burma (Myanmar), Cuba, China, Iran, and Vietnam—and quantifies the costs and benefits for the United States and the effects on the five target countries.

- Joseph J. Collins and Gabrielle D. Bowdoin, *Beyond Unilateral Economic Sanctions: Better Alternatives for U.S. Foreign Policy*. The conclusion of this study is best summarized by the first sentence in the executive summary: “Nearly all unilateral sanctions fail nearly all of the time.”
- Douglas Johnston and Sidney Weintraub, project coordinators, *Altering U.S. Sanctions Policy: Final Report of the CSIS Project on Unilateral Economic Sanctions*. This publication contains an analysis drawing on the other two components and sets forth the policy conclusions of the steering committee for the project which was made up of distinguished Americans from a variety of occupations. The policy recommendations in my testimony today draw on this consensus document.

#### POSITION ON KEY ISSUES

I wish to make clear at the outset of my testimony where I stand on the key issues before this subcommittee:

1. I support the substance of H.R. 1244, the “Enhancement of Trade, Security, and Human Rights Through Sanctions Reform Act.” This position of support is explicit in the CSIS policy paper cited above.
2. I do not oppose the imposition of unilateral economic sanctions as a tool in the conduct of U.S. foreign policy, but instead am concerned that it is being used promiscuously and without adequate analysis of the effects on U.S. interests and on the target country.
3. As a general proposition, the research done for the CSIS study convinces all of us who participated in it that narrow, carefully targeted measures are superior to comprehensive unilateral economic sanctions, or CUES, to use shorthand.
4. In most cases, moreover, there are alternatives that are superior in their effectiveness and less costly than either CUES or narrower unilateral economic sanctions.
5. This position can be phrased succinctly: Continued engagement with offending states is superior to cutting off practically all economic and political relations with them, which is what CUES imply. Engagement does not prevent the use of targeted sanctions when these are deemed appropriate, but not as a first resort.

I intend in the remainder of this submission to the subcommittee to set forth the reasoning that leads to these conclusions. One way to do this is to demonstrate that U.S. sanctions measures often lead to outcomes that when dissected cold-bloodedly are contrary to the overall national interest. I will also add some additional policy recommendations that stem from the work done at CSIS.

#### ACTIONS THAT DENY COMMON SENSE

The United States has instituted many sanctions that would not normally be supported by a majority of the U.S. public if the presentation were less in anger and more in terms of potential accomplishments.

- We know from experience that comprehensive economic sanctions inflict the greatest hardship on the poor and already downtrodden population in nations against which they are imposed. The pope made this point after his visit to Cuba in January 1998; this result is the central theme of a book by Elizabeth D. Gibbons, *Sanctions in Haiti: Human Rights and Democracy Under Assault* (CSIS, 1999). I assume that U.S. public opinion does not favor this outcome, especially when the principal foreign policy objective is not achieved. This point has now been recognized by the president in foreswearing the withholding of food and medicines when imposing sanctions.
- A policy which isolates the United States from its closest allies must surely be evaluated as counterproductive, yet this is exactly what the use of secondary boycotts has accomplished in Cuba. When the issue of extraterritoriality was subjected to a vote in the United Nations General Assembly on October 26, 1998, only one country—Israel—supported the United States.
- It is hard to justify punishing U.S. businesses for the benefit of foreign competitors, yet that is precisely what takes place in case after case when sanctions are imposed unilaterally. In such cases—which are the norm—the sanctions have clearly failed because the products or services prohibited to U.S. exporters are supplied by exporters from other countries.
- It can hardly be a goal of U.S. foreign policy to make the United States look ineffective, but that is precisely what is accomplished when sanctions fail to achieve their foreign-policy objective.
- Finally, it can hardly be wise to subordinate all foreign-policy objectives in a given country to a single offense—unless that offense is particularly grave. Yet, that exactly what occurs in many sanctions cases.

The conclusion of the CSIS examination is that these outcomes are common, even as the main foreign policy objectives are not achieved. This is why I support H.R. 1244. This legislation would call for procedures to analyze the effects of sanctions on both the United States and the target country and provide the calm to determine whether the foreign-policy purpose is likely to be accomplished before the sanction is imposed. There are times when speed is essential and it is my understanding that the proposed legislation permits this when necessary.

I wish to emphasize that the purpose of economic sanctions is not to punish a foreign population as an end in itself, but to bring about some change in a country's policy. Most U.S. sanctions are imposed against nondemocratic regimes and the majority of the population in these countries suffers enough in these circumstances without our adding to the burden.

The Congressional Budget Office, in a report prepared recently (issued in March 1999) for the House International Relations Committee, concluded that the size and flexibility of the U.S. economy minimized the cost of unilateral sanctions for the economy as a whole, especially when the sanctions are imposed against countries with small economies. The CSIS publication, *Altering U.S. Sanctions Policy*, contains a conclusion similar in one respect but divergent in another: "The resulting costs of lost export sales and/or the inability to invest in any given case may be high to individual companies and specific industrial sectors but are generally modest when measured against the totality of the U.S. economy." (p. 6)

My problem with the CBO report is that it largely ignores damage that can be done to specific companies. It fails also to take into account that the inability to participate early in some activities in sanctioned countries can build in a long-term bias against U.S. suppliers, as occurred in the generation of atomic energy in China. And when U.S. companies are precluded from oil investment in Iran or the development of natural gas in Burma while competitors are not, alternative investments may not be readily available to the U.S. companies.

#### POLICY RECOMMENDATIONS

Many of the recommendations in the CSIS policy paper emerge logically from the foregoing discussion:

- When sanctions are imposed, the primary target should be the leaders responsible for the offensive action and not the general population.
- Essential foodstuffs and medicines should not be cut off.
- In order to avoid turning business over to foreign competitors, and to make the action more effective, multilateral rather than unilateral sanctions should be sought—although this is not easily accomplished.
- A careful assessment of the effects in the United States—including on particular businesses and communities—and in the target country should be made before sanctions are imposed. This is the essence of H.R.1244.
- Extraterritorial application of sanctions should be avoided.
- And foreign policy objectives, not domestic politics, should be paramount when sanctions are imposed.

The overarching recommendation is that U.S. policy in the face of most grievances should be based on engagement and not isolation from the offending country. There may be grievances so severe where this would not apply, but these generally will be cases in which multilateral measures are possible, e.g., in the economic sanctions against Iraq. Engagement means that CUES should not be used, but does not preclude narrow or targeted sanctions.

Additional policy suggestions include the following:

- More effective coordination is necessary between the executive and legislative branches in the consideration of sanctions measures.
- The use of carrots, or non-threatening actions, may be preferable to punishing measures in many circumstances.
- Better advance intelligence is essential so that assessment of the results of U.S. actions, whether positive or punitive, can proceed rapidly.
- Sanctions should be targeted as narrowly as possible so that compliance by the offending state can occur without undue loss of prestige.
- Punishment, when inflicted, should be proportional to the offense.
- Prefer the credible threat of sanctions to sanctions themselves.
- Finally, an effort should be made to take into account the reactions of U.S. allies before embarking on a path of sanctions.

The subcommittee was kind enough to give me a voice in its proceedings and I welcome that. My colleagues who worked with me on the CSIS sanctions project and I are prepared to provide additional information.

Thank you.

Mr. HOUGHTON [presiding]. Thank you very much, Mr. Weintraub. You hold the—I'm sorry I wasn't here earlier. You hold the chair of a dear friend and a great citizen, Mr. Simon.

Mr. WEINTRAUB. Thank you very much.

Mr. HOUGHTON. A wonderful person.

Now, Mr. Rogowsky.

**STATEMENT OF ROBERT A. ROGOWSKY, DIRECTOR, OFFICE OF OPERATIONS, UNITED STATES INTERNATIONAL TRADE COMMISSION**

Mr. ROGOWSKY. I want to thank you for the opportunity to come and present the findings of the study on economic sanctions released by the International Trade Commission last year. Currently, as you know, we are examining the effect of sanctions imposed against India and Pakistan at the request of this Committee.

In 1998, this Committee asked the Commission to provide an overview and discussion of current U.S. unilateral economic sanctions. The Committee specifically asked the Commission to describe U.S. unilateral economic sanctions currently in effect, to review recent literature on the economic effects of national-level economic sanctions, and to survey to the extent possible affected U.S. industries concerning the costs and effects of U.S. unilateral economic sanctions on such industries and their markets, and to propose a methodology to analyze the short- and long-term costs of U.S. unilateral sanctions and their impact on the U.S. economy.

The approach the Commission took was to review all available databases, to catalog sanctions, to conduct a phone survey of over 500 U.S. companies, to elicit their views, and to review the literature for methods used to estimate the economic effects of these measures.

In requesting this study, the Ways and Means Committee defined the term unilateral economic sanctions as meaning, "any unilateral restrictions or condition on economic activity with respect to a foreign country or foreign entity that is imposed by the United States for reasons of foreign policy or national security."

Using this definition, the Commission identified 42 separate laws that either mandate particular actions or serve as the basis for discretionary actions by the executive branch. Under these laws, a total of 142 statutory provisions pertaining to unilateral economic sanctions were identified. Twenty-two percent of these measures concerned terrorism. Other sanctions concerned nuclear and other arms proliferation, national security, narcotics, expropriation, human rights, environmental protection, and communism.

The Commission identified 27 State, county, and city laws imposing unilateral economic sanctions, most of which were against Burma, three against Nigeria, one each against Cuba and Tibet.

There are several basic findings from our study which will sound very much like what you heard in previous panels.

First, the large number of statutes provide for economic sanctions in various forms, makes it difficult for both public- and private-sector entities to catalog these sanctions. For example, differing definitions of the terms economic sanction make it difficult

to compare the list of sanctions in our report to those compiled by others.

Second, in addition to the sheer number of statutes providing for economic sanctions, the statutes themselves may be difficult to interpret or may vary in impact from year to year, sometimes simply because of a lapse of funding.

Moreover, in some cases, there is a significant lag between the time a particular economic sanction is announced and the actual publication of the implementing regulations. This uncertainty can pose problems for private-sector compliance with sanctions, not to mention confusion for those attempting to examine the impact of these sanctions.

The Commission identified a total of 29 countries subject to U.S. unilateral economic sanctions, of which seven were designated as terrorism-sponsoring countries, 11 for foreign-policy or national-security reasons, and 11 preventing certain imports from countries for environmental protection objectives.

Both costs and benefits were reported. Some import-sensitive U.S. businesses, especially in the agricultural sector, may experience higher prices, production, and employment with sanctions because competition is reduced.

On the other hand, direct, quantifiable costs to U.S. businesses and the U.S. economy as a whole include lower U.S. exports and imports, reduced investment, and fewer export- and import-related jobs. Estimates of these costs based on data from early and the mid-nineties range from \$5 billion to \$20 billion.

Indirect effects are hard to quantify, such as reduced U.S. trade opportunities in global markets, loss of consumer and industrial consumer choice, less competitive U.S. businesses and a chilling effect on long-term commercial relationships if foreign partners are reluctant to do business with the United States.

A variety of analytical methods may be used to assess the impact of these sanctions. The choice of approach is largely determined by the nature of the sanction, how long it has been in force, and the availability of data. Survey research is always critical in this type of study. If data permit, statistical analyses can be used to estimate the effects on bilateral trade.

For a proposed sanction, one that is not in place yet, relatively sophisticated counterfactual simulation models can be used to estimate sector-specific and economy-wide effects.

In the Commission's current study on sanctions against India and Pakistan, for example, surveys and a global simulation model will be used.

I would be pleased to answer any questions you have about the study or, to some extent, about the study that is coming up.

Thank you.

[The prepared statement follows:]

**Statement of Robert A. Rogowsky, Director, Office of Operations, United States International Trade Commission**

I want to thank you for the opportunity to present the findings of the study conducted by the U.S. International Trade Commission. As you know, on February 19, 1998, the Committee on Ways and Means, U.S. House of Representatives (the Committee), requested that the U.S. International Trade Commission (the Commission) provide an overview and discussion of current U.S. unilateral economic sanctions. The Committee requested that the Commission's report include (1) a description of

U.S. unilateral economic sanctions currently in effect; (2) a review of recent literature on the economic effects of national-level economic sanctions; (3) a survey, to the extent possible, of affected U.S. industries concerning the costs and effects of U.S. unilateral economic sanctions on such industries and their markets; and (4) a proposed methodology to analyze in future studies the short-and long-term costs of U.S. unilateral sanctions and their impact on the U.S. economy.

The Committee defined the term “unilateral economic sanctions” as meaning “any unilateral restriction or condition on economic activity with respect to a foreign country or foreign entity that is imposed by the United States for reasons of foreign policy or national security.” The Committee also set forth a list of trade measures to be excluded from the present report, such as multilateral sanctions and measures authorized by multilateral or bilateral trade agreements; measures imposed to remedy unfair trade practices, to remedy market disruption, or to respond to injury to a domestic industry; actions taken pursuant to the extension by the United States of most-favored-nation trading status; and measures imposed to protect domestic health or safety.

#### APPROACH OF THE USTIC STUDY

The actions taken by the Commission to respond to the Committee’s request were (1) compiling a list of U.S. unilateral economic sanctions based on a review of relevant legislation and reference to several existing lists of sanctions compiled by other experts or entities that have conducted research in this area;<sup>1</sup> (2) conducting a telephone survey of nearly 500 U.S. companies and associations, and holding a public hearing to obtain private sector views on unilateral economic sanctions; (3) conducting a review of recent economic literature on the economic effects of national-level economic sanctions; and (4) proposing likely methodologies to estimate the short-and long-term costs of sanctions.

#### LIST OF U.S. UNILATERAL ECONOMIC SANCTIONS

The Commission identified 42 separate U.S. laws that authorize economic sanctions. These laws may mandate particular actions, or may serve as the basis of mandatory or discretionary actions by the Executive Branch. Under these laws, a total of 142 statutory provisions pertaining to unilateral economic sanctions were identified. Twenty percent of the measures concern terrorism. Other sanctions concern nuclear and other arms proliferation, national security, narcotics, expropriation, human rights, environmental protection, and communism.

A summary of major U.S. unilateral economic sanctions (statutes as well as implementing regulations) is provided in table ES-1. The table lists and summarizes the sanctions, the reasons cited for the sanction, and the countries or entities to which each listed sanction applies.<sup>2</sup> The table also indicates the sectors of economic activity—trade, aid, or finance—restricted by the sanctions. Some of the sanctions were implemented as recently as 1998 (for example, the Burmese and the Sudanese Sanctions Regulations and economic sanctions against India and Pakistan), while others have long been in effect (for example, the Trading With the Enemy Act of 1917 continues to provide part of the statutory basis for current U.S. unilateral economic sanctions against Cuba and North Korea).

The Commission identified 27 State, county, and city laws imposing unilateral economic sanctions—22 directed against Burma, 3 against Nigeria, and 1 each against Cuba and Tibet. All of these measures involved selective purchasing, selective contracting, or selective investment restrictions that disallow procurement or contracts with, or investment in, any company that does business with or has investments in the targeted country. The Commission identified 14 additional proposed State and local measures, including two such pending measures against Burma for human rights violations, 10 pending against Switzerland for the possession of funds belonging to Holocaust victims, and two pending measures against any foreign financial institution determined to be in possession of funds belonging to Holocaust victims.

The large number of statutes providing for economic sanctions present several challenges in working with sanctions and make it difficult for both public and private sector entities to catalog these sanctions. For example, differing definitions of the term “economic sanctions” make it difficult to compare the lists of sanctions in

<sup>1</sup>The three primary sources consulted were the President’s Export Council, the Congressional Research Service (CRS) of the Library of Congress, and the National Association of Manufacturers. Each of these entities has compiled a list of U.S. economic sanctions using its own definition of the term “economic sanction.”

<sup>2</sup>More detailed information is provided in table 2-1 and in Appendix D.



this report with lists of sanctions compiled by other sources. In addition to the sheer number of statutes providing for economic sanctions, the statutes themselves may be difficult to interpret, may be subject to varying interpretations, or may vary in impact from year to year because of lapses in funding. Moreover, in some cases there is a significant lag between the time a particular economic sanction is announced and the actual publication of the implementing regulations. These challenges pose significant problems for the private sector in complying with sanctions as well as for all who attempt to examine the impact of sanctions.

#### *Countries Subject to U.S. Unilateral Economic Sanctions*

Cuba, Iran, Libya, North Korea, Syria, and Sudan are designated by the United States as terrorism-sponsoring countries and face the broadest range of U.S. unilateral economic sanctions. These countries are subject to U.S. restrictions or prohibitions on trade, aid, and financial transactions. U.S. economic sanctions against Iraq are pursuant to United Nations (UN) multilateral sanctions and thus are beyond the scope of this report as delineated in the request letter. However, Iraq is designated by the United States as a terrorism-sponsoring country, and would be subject to U.S. unilateral economic sanctions were UN sanctions not operative. All of the designated terrorism-sponsoring countries are relatively small markets for U.S. exports. Nevertheless, U.S. industries contacted during the Commission's telephone survey (especially oil and gas, infrastructure-related machinery, and construction services) identified lost exports to some of these countries because of U.S. unilateral economic sanctions.

The Commission identified a total of 29 countries subject to U.S. unilateral economic sanctions. In addition to the 7 designated terrorism-sponsoring countries, 11 other countries are subject to U.S. unilateral economic sanctions for foreign policy or national security reasons—Afghanistan, Burma, Cambodia, China, the Democratic Republic of the Congo, the Federal Republic of Yugoslavia (Serbia and Montenegro), India, Niger, Nigeria, Pakistan, and the Republic of Serbia. An additional 11 countries were identified as subject to U.S. unilateral economic sanctions that prohibit certain imports from these countries for environmental protection objectives.

#### *Potential Impact of U.S. Unilateral Economic Sanctions*

The Commission was not requested to undertake a quantitative assessment of the effects of U.S. unilateral economic sanctions in this investigation, but nonetheless there are some estimates available on the impact of sanctions from the economic literature reviewed for this report. The Commission's telephone survey and public hearing also obtained input from the U.S. private sector on the effects of sanctions.

Both costs and benefits were reported among the effects of U.S. unilateral economic sanctions. Costs to U.S. businesses and the U.S. economy as a whole include direct effects, which tend to be quantifiable, such as lower U.S. exports, lower U.S. imports, reduced investment, and fewer export-and import-related jobs. In addition, economic sanctions also may have indirect effects that are harder to quantify, such as reduced U.S. trade opportunities in global markets, loss of consumer and industrial user choice, less competitive U.S. businesses, and a "chilling effect" on long-term commercial relationships as some foreign partners become reluctant to do business with U.S. companies. This is out of concern that U.S. companies are not reliable suppliers due to the threat of future U.S. unilateral economic sanctions, or that assets in possession of U.S. entities may be seized under future U.S. sanctions. This study did not attempt to examine political costs and benefits of U.S. unilateral economic sanctions.

In terms of benefits, some import-sensitive U.S. businesses (especially in the agricultural sector, as discussed below) may experience higher production and employment while sanctions are in force because import restrictions imposed by sanctions may reduce the available supply of competing foreign products in the U.S. market, or otherwise affect the prices of such foreign goods.

### COSTS AND EFFECTS OF U.S. UNILATERAL ECONOMIC SANCTIONS: U.S. INDUSTRY PERSPECTIVES

#### *General Findings*

The Commission contacted 492 U.S. firms and professional or trade associations in a telephone survey to obtain their views and information on U.S. unilateral economic sanctions. The survey was not based on a statistical sampling due to the short-term nature of this report; nevertheless, an attempt was made to include firms of all sizes representing a wide cross-section of manufacturing and service sectors. The selection of these firms relied on the judgement and expertise of USITC staff

in specific manufacturing and service sectors. Consumer groups were not contacted, as Congress directed the Commission to focus on the effects of U.S. unilateral economic sanctions on U.S. industries. The Commission received a total of 174 responses of varying depth and quality—an overall response rate of 35 percent. Respondents were asked to identify the effects of sanctions as “minimal” (0 to 5 percent effect), “modest” (6 to 10 percent), or “substantial” (over 10 percent).

No responding firm indicated that it directly benefits from U.S. unilateral sanctions in terms of additional business, profits, or employment; however, some fresh vegetable producers in Florida expressed concerns about potential economic losses if U.S. unilateral economic sanctions against Cuba were to be lifted (see “agriculture” below). Energy producers, especially oil and gas, were reported as being the most adversely affected by U.S. unilateral economic sanctions (see “energy and chemicals” below).

Most other respondents indicated that the economic effects of U.S. unilateral economic sanctions are small because many of the countries targeted for sanctions are mainly low-income countries with relatively small markets. However, in May 1998, after the Commission’s industry survey ended, the United States implemented economic sanctions against India and Pakistan following nuclear test explosions by those countries. Under these sanctions, the United States was statutorily required to prohibit economic and military aid as well as terminate financial assistance; the sanctions also required that the extension of agricultural export credit guarantees also be terminated for these two countries. As a result of concerns expressed by the U.S. agricultural sector, the United States amended the relevant sanctions statute to retroactively authorize the extension of agricultural export credits.

Survey respondents stated that it was difficult for them to quantify the economic effects of sanctions. Particularly difficult to quantify were: (1) the business losses experienced, compared to the returns expected if sanctions had not been in place; (2) the effects of delayed entrance into a market because of sanctions; and (3) the business losses incurred because sanctions may cause U.S. firms to be perceived as unreliable suppliers, due to the threat of future U.S. unilateral economic sanctions. Many respondents stated that identification of, and compliance with, the large number of U.S. unilateral economic sanctions is difficult and expensive. They cited the large number of economic sanctions imposed by State and local governments as a further hindrance to their business operations—adding to the expense and the administrative complications of doing business abroad.

#### *Sectoral Findings*

*Agriculture.* Overall, the costs and effects of U.S. unilateral economic sanctions were reported to be minimal both in terms of access to foreign markets and competition from imports. Some fresh vegetable producers in Florida expressed concerns about possible adverse effects on their businesses if Cuban products were allowed to re-enter the U.S. market. These firms believe that Cuban products would underprice Florida-grown vegetables. U.S. cigar producers also expressed the concern that lifting the sanctions against Cuba could disrupt the U.S. cigar industry.

*Energy and chemicals.* Respondents indicated that U.S. unilateral economic sanctions impede their ability to export to some markets. One large multinational chemical company reported that U.S. unilateral economic sanctions have harmed its reputation as a reliable supplier and caused a loss of international competitiveness in such markets as Iran, Sudan, and Cuba. That company also reported that the effects of sanctions can linger even after the sanctions are lifted, stating that its current market opportunities in Vietnam are limited because foreign competitors were able to secure most of that market during the period when U.S. companies were prohibited from doing business in Vietnam. One large multinational energy company reported that its operations in the Middle East, Vietnam, and Cuba have been adversely affected because of U.S. economic sanctions. In contrast, one large international pharmaceutical company reported a minimal impact on its operations as a result of U.S. sanctions.

*Minerals, metals, machinery, and miscellaneous manufactures.* Most respondents reported that U.S. unilateral economic sanctions have a minimal to modest impact overall on their business operations, although several said that the effects could be significant with respect to certain business activities (such as infrastructure-related machinery and parts) and to certain countries, such as Sudan. Two companies estimated that sanctions caused aggregate lost exports valued at \$250,000, and total lost export earnings plus follow-on sales and service of approximately \$45 million. Some firms reported that they had some difficulty re-entering markets that had previously been prohibited by U.S. unilateral economic sanctions, and where re-entry was possible the firms incurred high costs for developing new distribution channels and marketing.

*Electronic technology and transportation.* Respondents reported that economic sanctions most likely affected not more than 1 percent of total sales, or 5 percent of export earnings; however, several noted that such losses, especially foregone export sales, could be significant when accrued over several years. Several respondents reported the difficulties of re-entering markets after sanctions are lifted, and noted that the costs of re-establishing distribution networks are especially high. One U.S. motor vehicle producer noted that State and local sanctions have particularly disruptive effects on business operations, because such economic sanctions affect procurement and divestiture of stock, are easier to enact, and have more immediate effects.

*Service industries.* Respondents indicated that U.S. unilateral economic sanctions close off new market opportunities and increase the level of uncertainty for business operations. Construction firms reported being adversely affected when submitting bids for certain long-term infrastructure projects because the threat or potential threat of U.S. unilateral sanctions contributes to the perception that U.S. firms may be less reliable than their European or Japanese competitors. Major multinational financial service firms indicated that they are vulnerable to U.S. unilateral economic sanctions if their overseas affiliates are located in countries that are targets for sanctions. Moreover, investors may be reluctant to deposit funds in U.S. banks worldwide for fear of having their accounts monitored or frozen under U.S. sanctions. Telecommunications services firms also reported foregone business opportunities in such markets as Colombia, Cuba, Iran, and Libya as a result of U.S. unilateral economic sanctions.

#### REVIEW OF LITERATURE

Research that specifically examines the cost of sanctions to the sender or imposing country is relatively limited. Much of the academic economic literature treats economic sanctions as a theoretical problem. Game theory is a commonly used framework in which countries that impose economic sanctions (senders) and countries against which the sanctions are directed (targets) are treated as two opponents, each weighing the outcomes of various policy options in view of the strategy of the other. The studies that examined the costs of sanctions focused on the costs of sanctions to the target countries or estimated the degree of success of the sanctions in relation to the sender's stated policy goal or objective. These studies relate the degree of success to such factors as the costs of the sanctions to the sender and target countries, the size of the countries or trade flows involved, the objectives of the sanctions, the duration of the sanctions, the extent of international cooperation in implementing or enforcing the sanctions, and other factors.

#### SURVEY OF METHODOLOGIES AND COST ESTIMATES

Researchers have used a variety of approaches to evaluate the costs of sanctions to senders, leading to results on several different types of costs and a wide range of dollar estimates of these costs. The most readily available estimates of the sender costs of sanctions take the form of aggregate lost U.S. export sales to target countries due to all sanctions imposed by the United States. In this research, which covers all U.S. sanctions including multilateral sanctions, these estimates range from \$5 billion to \$20 billion in foregone export sales to the target countries for the early to mid-1990s.<sup>3</sup>

Other types of direct costs discussed in the literature include job losses, compliance costs, lost sales from intermediate suppliers for goods placed under sanctions, and lost follow-on sales and market share. In addition, business representatives have identified a number of indirect, less easily quantifiable costs, including damage to their reputation as reliable suppliers, lost opportunities for forming critical business relationships or participating in joint ventures and lost competitiveness as these opportunities are taken up by firms from other countries. Evaluating any of these costs for the United States from the imposition of U.S. unilateral sanctions is difficult, but estimating the indirect costs is especially challenging.

Direct costs of sanctions, such as lost export sales, are typically estimated econometrically with a gravity model—that is, a model of bilateral trade flows that detects shortfalls in trade flows below what would be expected given the economic conditions prevailing among trade partners and provides means for estimating the role of sanctions in causing such shortfalls. Other approaches have also been used to estimate the costs generated by the imposition of sanctions. These approaches include partial equilibrium models, which can examine the impact of restrictions of

<sup>3</sup>These estimates reflect sales to countries targeted by U.S. unilateral sanctions, and do not attempt to measure whether such sales were diverted to other markets or lost entirely.

proposed sanctions on the economic welfare of participants in the relevant markets, and general equilibrium models, which connect the restricted markets to a full representation of all markets in an economy. Multi-country variations connect several single-country general equilibrium models together through international trade flows.

Industry surveys and questionnaires have been used to elicit from affected businesses the different types of costs they have experienced as a result of sanctions and the extent of these costs. Information obtained from surveys and questionnaires is especially valuable in assessing the indirect costs of economic sanctions. Case studies can also help identify the full spectrum of costs to senders of economic sanctions.

#### METHODOLOGY PROPOSAL

The request letter asks that the USITC propose a methodology to be used to analyze in future studies the short and long-term costs of U.S. unilateral sanctions to the U.S. economy. The request letter refers to draft legislation that would ask the USITC on a recurring basis to report on the costs of all actual and proposed U.S. unilateral economic sanctions, and to assess the impact these sanctions have on the reliability of the United States as a supplier of products, agricultural commodities, technology, and services, and on the international competitive position of U.S. industries, firms, workers, farmers, and communities.

The analytical approaches used by the Commission to provide such an assessment of existing and/or proposed unilateral sanctions will need to address three basic concerns. First, the analysis should include both aggregate and sector-specific effects of the sanctions under review. Second, the analysis should provide measures of the costs of sanctions that, to the extent possible, can be provided on a consistent basis over time. Finally, the analysis should account for the total net costs of the sanctions, including both the direct, more easily quantified costs as well as the indirect costs that are difficult to quantify. The Commission's likely approach would be to jointly employ a variety of the methodologies described above to capture the effects of economic sanctions. In addition to economic methodologies, the Commission would seek industry and interested party views through hearings, questionnaires, and other survey forms.

For example, partial equilibrium and gravity models have been used most often to assess the impact of economic sanctions. Partial equilibrium models can provide estimates of the direct costs of proposed sanctions borne by both producers and consumers. This type of model can be constructed to allow for varying degrees of imperfect competition, multiple suppliers, and multiple buyers. Moreover, such models can account for varying degrees of substitutability between tradeable products and can be used to assess the impact of different types of sanctions, such as export embargoes and restrictions on export financing. Given the abundance of information produced, the ability to account for the impact of policy changes on narrowly defined sectors, the limited data requirements and simplicity of operation, the partial equilibrium approach compares favorably in most cases to the use of a general equilibrium model. A general equilibrium approach would be a more likely choice for sanctions imposed on large trading partners (where the economy-wide effects of the sanctions may be significant) or on those who can influence the world prices of products in major, broadly-defined sectors such as oil.

In order to evaluate the economic impact of U.S. unilateral sanctions on an ongoing basis, it will be valuable to have a modeling framework that captures more of the dynamic aspects of that impact. These aspects include the long-term costs, the impact on the international reputation of the United States as a reliable supplier of goods and technologies, and the impact on the international competitiveness of U.S. industries and firms. Gravity models fill this need in that they can be applied to test for persistence of the effects of sanctions after they have been removed. Such a test for persistence can help indicate how temporary loss of market share or supplier relationships may affect reputation for reliability or competitiveness in the long run. In addition, gravity modeling can help estimate the effects of sanctions on capital flows.

Each of these methodologies has its own advantages and trade-offs, such as the initial data requirements for the analysis and the level of detail of the results. Depending on the specific request as well as the length of time available for analysis, partial or general equilibrium analysis or gravity models or a combination of these methodologies could be applied appropriately to estimate the direct costs such as lost export sales associated with economic sanctions. Industry input would be sought via surveys and questionnaires to obtain information on the indirect as well as the direct costs of sanctions. Integrating the analysis of estimates of direct and indirect costs from several appropriate methodologies, in conjunction with industry surveys,

would provide a more comprehensive assessment and understanding of the short- and long term costs of sanctions on the U.S. economy.

Table 1 Summary of U.S. unilateral economic sanctions currently in force <sup>1</sup>					
Public Law or Regulation			Unilateral Economic Sanctions <sup>2</sup>		
Law No./ Regulation	Reasons cited	Countries or entities applied to	Trade	Aid	Finance
<i>Antiterrorism Act of 1987</i>					
100-204	Palestinian Liberation Organization (PLO)	PLO			✓
<i>Antiterrorism and Effective Death Penalty Act</i>					
104-132	terrorism	Designated terrorist countries (DTCs), <sup>3</sup> and countries that provide military assistance to DTCs; also worldwide	✓	✓	✓
<i>Arms Export Control Act, as amended</i>					
90-629	national security	worldwide <sup>4</sup>	✓		✓
<i>Arms Export Control Act, as amended (sec. 102)—the Glenn Amendment</i>					
103-236	national security, nuclear proliferation	worldwide; developing countries that divert economic aid to the military; India (1998); Pakistan (1998)	✓	✓	✓
<i>Atomic Energy Act</i>					
83-703	nuclear proliferation	worldwide	✓		
<i>Bretton Woods Agreement Act</i>					
79-171	communism	worldwide			✓
<i>Bretton Woods Agreement Act Amendments</i>					
95-435	terrorism	worldwide			✓
<i>Burmese Sanctions Regulations</i>					
31 C.F.R. 537	implementing regulations for Burma sanctions	Burma			✓
<i>Chemical and Biological Weapons Control and Warfare Elimination Act</i>					
102-182	weapons proliferation	worldwide—countries that use or develop chemical or biological weapons, and countries that assist them in so doing	✓	✓	✓
<i>Cuban Assets Control Regulations</i>					

Public Law or Regulation			Unilateral Economic Sanctions <sup>2</sup>		
Law No./ Regulation	Reasons cited	Countries or entities applied to	Trade	Aid	Finance
31 C.F.R. 515	implementing regulations for Cuba sanctions	Cuba	✓		✓
<i>Cuban Liberty and Democratic Solidarity (Libertad) Act (also known as Helms-Burton Act)</i>					
104-114	Cuba sanctions	Cuba; former Soviet republics; worldwide	✓	✓	✓
<i>Department of Commerce, Justice and State, the Judiciary and Related Agencies Appropriations Act of 1990 (sec. 609)</i>					
101-162	environmental protection (certain sea turtles)	worldwide <sup>4</sup>	✓		
<i>Department of Defense Appropriations Act of 1987</i>					
99-500	terrorism	DTCs	✓		
<i>Dolphin Protection Consumer Information Act</i>					
101-627	environmental protection (dolphins)	worldwide	✓		
<i>Export Administration Act of 1979, as amended</i>					
96-72	foreign policy; terrorism; weapons proliferation	worldwide	✓		
<i>Export-Import Bank Act</i>					
79-173	child labor; human rights; environmental protection; Communism; national security; nuclear proliferation; terrorism	Afghanistan, Cambodia, Cuba, India (1998), Laos, North Korea, Pakistan (1998), Tibet, China (Three Gorges Dam)			✓
<i>Fisherman's Protective Act of 1967, as amended—the Pelly Amendment</i>					
92-219	environmental protection	worldwide	✓		
<i>Foreign Assistance Act of 1961</i>					
87-195	arms control; debt arrears; human rights; narcotics; expropriation; nuclear proliferation	worldwide, including Saudi Arabia, Qatar, United Arab Emirates (human rights); Cuba (expropriation); India, Pakistan (nuclear proliferation)	✓	✓	✓
<i>Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1997</i>					

Public Law or Regulation			Unilateral Economic Sanctions <sup>2</sup>		
Law No./ Regulation	Reasons cited	Countries or entities applied to	Trade	Aid	Finance
105-118	coercive family planning; Communism; debt default; human rights; military coups; nuclear proliferation; sanctuary to war criminals; terrorism; worker rights	worldwide; DTCs	✓	✓	✓
<i>Hickenlooper Amendment and Expansion</i>					
87-565	expropriation	worldwide		✓	✓
<i>High Seas Driftnet Fisheries Enforcement Act</i>					
102-582	environmental protection	worldwide	✓		
<i>India: Executive Order and Interim Regulations</i>					
	nuclear proliferation	India		✓	✓
<i>International Development Association Act</i>					
86-565	expropriation; narcotics	worldwide			✓
<i>Inter-American Development Bank Act</i>					
86-147	expropriation; narcotics	Western Hemisphere countries			✓
<i>Internal Revenue Act, as amended (sec. 901)</i>					
99-509	terrorism	DTCs			✓
<i>International Emergency Economic Powers Act</i>					
95-223	national security	worldwide			✓
<i>International Financial Institutions Act</i>					
95-118	terrorism	worldwide; DTCs			✓
<i>International Monetary Fund Act</i>					
95-435	terrorism	worldwide			✓
<i>International Security and Development Cooperation Act</i>					
99-83	terrorism	worldwide; Libya	✓		



Public Law or Regulation			Unilateral Economic Sanctions <sup>2</sup>		
Law No./ Regulation	Reasons cited	Countries or entities applied to	Trade	Aid	Finance
<i>Iran and Libya Sanctions Act</i>					
104-172	terrorism	worldwide: foreign companies that trade with Iran and Libya	✓		✓
<i>Iran-Iraq Arms Non-Proliferation Act of 1992</i>					
102-484	weapons proliferation	worldwide: countries or individuals contributing to Iranian efforts to acquire advanced conventional weapons	✓	✓	✓
<i>Iranian Transactions Regulations</i>					
31 C.F.R. 560	implementing regulations for Iran sanctions	Iran	✓		✓
<i>Lacey Act Amendments of 1981</i>					
97-79, as amended	environmental protection	worldwide	✓		
<i>Libya Sanctions Regulations</i>					
31 C.F.R. 550	implementing regulations	Libya	✓		✓
<i>Magnuson-Stevens Fishery Conservation and Management Act</i>					
94-265	environmental protection	worldwide	✓		
<i>Marine Mammal Protection Act</i>					
92-522 re-authorized in 1994 as P.L. 103-238	environmental protection (dolphins)	worldwide—countries that harvest tuna in the Eastern Tropical Pacific Ocean <sup>4</sup>	✓		
<i>Narcotics Control Trade Act</i>					
99-570	narcotics	worldwide—uncooperative major drug producing or drug transit countries	✓		
<i>National Defense Authorization Act of 1998</i>					
105-85	high-performance computers	worldwide <sup>4</sup>	✓		
<i>National Defense Authorization Act</i>					
104-106	terrorism	DTCs and worldwide		✓	
<i>North Korea: Relevant Foreign Assets Control Regulations</i>					

Public Law or Regulation			Unilateral Economic Sanctions <sup>2</sup>		
Law No./ Regulation	Reasons cited	Countries or entities applied to	Trade	Aid	Finance
31 C.F.R. 500	implementing regulations for North Korea sanctions	North Korea	✓		✓
<i>Nuclear Non-Proliferation Act of 1978, as amended</i>					
95-242	nuclear proliferation	worldwide; India (1998), Pakistan (1998)	✓		✓
<i>Nuclear Proliferation Prevention Act</i>					
103-236	human rights; nuclear proliferation; terrorism	worldwide	✓	✓	✓
<i>Pakistan: Executive Order and Interim Regulations</i>					
	nuclear proliferation	Pakistan		✓	✓
<i>Spoils of War Act</i>					
103-236	terrorism	DTC	✓		
<i>Sudanese Sanctions Regulations</i>					
31 C.F.R. 538	terrorism	Sudan	✓		✓
<i>Tariff Act of 1930 (sec. 307)</i>					
71-361	forced labor	worldwide	✓		
<i>Trade Act of 1974 (sec. 403)</i>					
93-618	foreign policy, national security	worldwide			✓
<i>Trade Expansion Act of 1962</i>					
87-794	national security	worldwide	✓		
<i>Trading With the Enemy Act of 1917</i>					
65-91	national security	Cuba, North Korea	✓		

Public Law or Regulation			Unilateral Economic Sanctions <sup>3</sup>		
Law No./ Regulation	Reasons cited	Countries or entities applied to	Trade	Aid	Finance
<p>Notes</p> <p><sup>1</sup> This table summarizes major U.S. unilateral economic sanctions-related legislation and regulations, and the countries or entities subject to those sanctions. More comprehensive information is provided in table 2-1 and Appendix D.</p> <p><sup>2</sup> Definition for the term "unilateral economic sanctions" as used in this report, and as delineated in the request letter, is provided in ch. 1. Empty box indicates that no relevant sanctions were identified.</p> <p><sup>3</sup> DTCs are countries designated under sec. 6(j) of the Export Administration Act as supporting international terrorism. Countries currently so designated are: Cuba, Iran, Iraq, Libya, North Korea, Sudan, and Syria.</p> <p><sup>4</sup> See notes to table 2-1 for list of designated countries.</p> <p>Sources: Prepared by the staff of the U.S. International Trade Commission in consultation with sanctions databases compiled by the President's Export Council, the Library of Congress, and the National Association of Manufacturers, cited elsewhere in this report.</p>					

Mr. HOUGHTON. Thank you very much, Mr. Rogowsky.  
Mr. Farmer.

**STATEMENT OF RICHARD D. FARMER, PH.D., PRINCIPAL ANALYST, NATURAL RESOURCES AND COMMERCE DIVISION, CONGRESSIONAL BUDGET OFFICE**

Mr. FARMER. Thank you. Mr. Chairman and Members of the Subcommittee, I am pleased to appear here today to report on CBO's recent study, the *Domestic Costs of Sanctions on Foreign Commerce*. The focus of CBO's research was the cost of sanctions on the national economy. Those are costs that net out losses and gains for different groups.

I want to emphasize up front that the costs of sanctions to the United States, large or small, say little about the costs to the target country or the effectiveness of sanctions in deterring objectionable behavior. CBO's research and this testimony do not address questions of effectiveness. However, our work does note that such information, along with details on the costs and benefits of all policy options, including sanctions, would be relevant to any decision to impose sanctions.

CBO's review of sanctions indicates that many of the Government's actions that look as though they would restrict foreign commerce do not actually add new restrictions. Considerable redundancies exist among current statutes and executive actions, and many statutes provide for presidential delays in enforcement, which the President takes advantage of.

The economic effects of such actions are very indirect, depending largely on people's perceptions of what the government will do next and, hence, are difficult to assess. For actions that add new restrictions, CBO concludes that individual actions could have clear costs for the overall economy, but those costs are likely to be small.

One reason for the small cost is that, to date, very little commerce is at stake. The common targets of sanctions are developing economies that individually account for very little U.S. trade.

Three closely related factors also point to small costs. First, many of the U.S. actions are unilateral. They generally result in a smaller cost to the United States than do multilateral sanctions because unilateral actions are less effective in restricting overall economic activity, as we have heard today.

Second, many of the U.S. actions restrict foreign assistance or export-promotion programs. Those restrictions result in smaller national costs than do sanctions that restrict free commerce. To the extent that such programs distort free trade, there is even a possibility of some small economic gains from those sanctions.

And third, the main exports of developing countries (the common targets of sanctions) are raw materials and standard manufactured goods, many of which are widely available from other countries or domestically. Sanctions that narrowly target goods with such substitute sources of supply generally result in little cost.

Support for the view that the cost of sanctions to date has been small comes from recent research by Gary Hufbauer and others at the Institute for International Economics. They found that the cost

of all current sanctions is an annual loss of national income of only about \$1 billion. That's about 0.01 percent of the current national income of \$7 trillion. That same study is also the source for the figure of nearly \$20 billion in lost export trade each year because of sanctions.

CBO understands that at least two issues underlie the growing political concern about sanctions. First, to the individuals and businesses who bear the direct impact of sanctions, the losses can be significant, as we have heard here today. Other sectors of the economy may gain, but that fact is of little consolation to the losers.

Second, regardless of their impact today, sanctions could become costly in the future. That could be true if their use expands or if they keep U.S. businesses out of fast-growing markets, especially markets where the United States would otherwise have a competitive advantage.

In some cases, sanctions may threaten U.S. relationships with important trading partners who are not the direct targets of sanctions. The critics of sanctions also express concern about the long-lasting impact of past actions on the United States' reputation as a reliable supplier.

To investigate the domestic cost of future actions, CBO made use of the results of past academic research to calculate how much economic welfare would drop for each dollar reduction in U.S. trade.

In general, that research confirms that the lowest cost to the United States would be from unilateral actions against small developing economies. Because such actions are so common, the Hufbauer research on current sanctions provides a direct indication of their cost. His results suggest a loss in U.S. national income of 5 cents for each one dollar decrease in exports.

The highest cost to the economy would come from sanctions imposed on a large industrialized country, especially if the sanctions initiated a worldwide round of trade reductions. However, those countries are rarely the targets of sanctions.

This testimony necessarily provides a very brief overview of our work. I would be pleased to answer any questions you may have.

Thank you.

[The prepared statement follows:]

**Statement of Richard D. Farmer, Ph.D., Principal Analyst, Natural Resources and Commerce Division, Congressional Budget Office**

Mr. Chairman and Members of the Subcommittee, I am pleased to appear here today to report on a study that the Congressional Budget Office (CBO) recently released titled *The Domestic Costs of Sanctions on Foreign Commerce*. The focus of CBO's research was the total cost to the U.S. economy of imposing sanctions on other countries. That total cost nets out losses and gains for different groups.

The cost to the United States, large or small, of imposing sanctions says nothing about the cost to the target country, the effectiveness of sanctions in deterring objectionable behavior, or other benefits of such action. CBO's research—and this testimony—do not address questions of effectiveness. However, such information, along with details about the relative costs and benefits of all policy options open to the United States (economic, diplomatic, and military), would be relevant to any decision to impose sanctions.

Not all actions by the U.S. government that call for restricting foreign commerce actually add new restrictions. For actions that do, CBO concludes, the sanctions may have costs for the overall U.S. economy—but those costs are likely to be very small. One reason is that the common targets of U.S. sanctions are developing economies that individually account for very little U.S. trade.

Several other factors play a role in determining the national costs of individual sanctions.

- Unilateral sanctions (imposed by the United States alone) generally result in a smaller cost to the U.S. economy than multilateral sanctions (in which other nations join the United States), because unilateral actions are less effective in restricting economic activity.
- Sanctions that narrowly apply to imported goods for which substitute sources of supply exist or to exported goods for which substitute outlets exist, generally create a smaller cost than sanctions on goods without substitution opportunities.
- Sanctions that restrict foreign aid or export-promotion programs generally result in a smaller cost than sanctions that restrict open commerce. Because those types of government support can distort trade, sanctions that restrict them may even produce small economic gains.

#### CONCERNS ABOUT SANCTIONS

Broadly, the term “sanctions” refers to actions that the government takes to restrict the flow of goods, services, or capital between the United States and another country in order to promote particular foreign policies or enhance national security. The ultimate goal of sanctions is to deter objectionable actions by raising the costs of those actions to other countries. But government restrictions on foreign commerce can also impose costs on U.S. businesses and consumers.

Political interest in the domestic costs of sanctions appears to be growing, fueled by at least two concerns. First, the individual groups of consumers, workers, and business owners who bear the direct costs of U.S. sanctions often do not receive direct compensation for their losses. Other sectors of the economy may gain from changes in trade patterns produced by sanctions, but that fact is of little consolation to the losers. Second, although sanctions have only a small economic impact today, they could become more costly for the United States over time if their use expanded or if they kept U.S. businesses out of fast-growing markets—especially markets in which U.S. businesses would otherwise have a competitive advantage. In addition, they might harm the United States’ relationships with important trading partners that were not the direct targets of sanctions.

Last year, the Congressional Research Service identified more than 190 provisions of U.S. law that potentially restrict some aspect of foreign commerce for foreign policy reasons. Of those provisions, 102 pertain to restrictions on government foreign aid and trade-promotion programs, including 26 on defense-related aid. Another 49 pertain to restrictions on commercial exports, including 26 on defense-related sales. Those statutes place the most restrictions on commerce with seven countries: Cuba, Iran, Iraq, Libya, North Korea, Sudan, and Yugoslavia.

Assessing the amount of trade that federal statutes affect is difficult for a number of reasons. First, considerable redundancies, such as multiple laws that call for the same restrictions, exist in sanctions policies. Second, limits on U.S. aid to one country may simply make more funds available for other countries. Third, many statutes provide for Presidential delays in enforcement. And fourth, sanctions may be coupled with other government actions that soften their domestic impact. Analyzing the effect of sanctions is further complicated by the fact that the domestic policies of the target countries play a large role in limiting their ability to trade competitively.

#### COSTS TO THE OVERALL U.S. ECONOMY

To date, sanctions on foreign commerce have had only a small combined impact on the overall U.S. economy. A 1997 study by Gary Hufbauer and others at the Institute for International Economics looked at the effects of all current sanctions. It estimated that sanctions cost the United States about \$1 billion in national income and as much as \$19 billion in merchandise exports each year. Those figures may seem large, but they are quite small compared with total national income of nearly \$7 trillion in 1998 and total merchandise exports of nearly \$700 billion—figures that indicate the high potential for replacing currently sanctioned trade.

Those estimates, however, do not preclude the possibility that sanctions will pose a greater threat to the U.S. economy in the future. To estimate the domestic cost of future sanctions, CBO used the results of the Hufbauer study as well as several studies of the benefits produced by lowering barriers to trade. (In general, the benefits from opening trade would be symmetrical with the costs of closing it.) On the basis of those studies’ findings, CBO calculated a set of ratios that relate a loss in economic welfare to each \$1 reduction in U.S. trade, depending on the size of the economy targeted by sanctions, the participation of other nations, and the time horizon. Those ratios could be used to estimate the total cost of a particular sanction

by multiplying the appropriate ratio by the direct loss of trade attributable to that sanction.

Those ratios support the idea—derived from economic theory—that the cost of unilateral U.S. sanctions on a particular economy is likely to be smaller than the cost of multilateral sanctions. And although the cost of both types of sanctions grows over time, that growth tends to be smaller for unilateral sanctions because opportunities for substitution (which are the key reason that unilateral actions are less effective) also grow over time. In terms of the size of the economy targeted, the cost will generally be:

- Small for small developing economies, which account for little U.S. trade now;
- Somewhat larger for big emerging economies, such as China, which are likely to account for an important share of U.S. trade in the future; and
- Largest for industrialized economies, which are highly integrated with the U.S. economy and already account for significant U.S. trade.

The lowest cost to the overall economy would come from a unilateral sanction imposed on a small developing economy. Countries in that category—mainly ones in Latin America, Africa, Asia, and Eastern Europe—buy about 15 percent of U.S. exports in all. Current sanctions disproportionately target developing economies that individually account for a very small share of U.S. trade and that supply commodities that are widely available from other sources. Many of those sanctions represent unilateral actions by the United States. Thus, Hufbauer's 1997 study, which examined the effect of current sanctions, provides an indication of the costs of unilateral sanctions on small developing economies. His results suggest a loss in U.S. national income of 5 cents for each \$1 of decrease in exports because of sanctions.

That figure may represent a ceiling on the actual cost of such sanctions. Hufbauer's results probably overstate the disruption of exports caused by current sanctions because they do not count the economic gains from increased exports to unsanctioned countries or account for other important factors that could explain the low volume of trade with sanctioned countries. For example, the domestic policies of nations such as Cuba contribute to their poor economic performance and limited export potential. Moreover, many U.S. actions against small economies limit only foreign assistance or trade in commodities (such as petroleum) for which substitutes are readily available. Those actions should cost the United States little if anything.

The highest cost to the economy would come from sanctions imposed on a large industrialized economy. Countries in that category—including Western European nations, Canada, Japan, and Australia—account for about 60 percent of U.S. exports. To determine what sanctions on those countries might cost, CBO looked at studies of the gains from liberalizing trade by Mun Ho and Dale Jorgenson, Warwick McKibbin, Drusilla Brown and colleagues, and Gary Hufbauer and Kimberly Elliot, among others. Several of those studies modeled the effect of unilateral U.S. action to reduce trade barriers. Viewed from the opposite perspective, their results indicate that multilateral sanctions on trade with an industrialized country could lower U.S. income by 10 cents for each \$1 loss of exports in the long term. (The same would be true for imports: a 10 cent loss of income for each \$1 loss of imports. The reason those numbers would be the same is that imports tend to move with exports, because the nation's current-account deficit depends on total investment and savings, which are not affected by minor changes in trade policy.)

Other studies of large industrialized economies considered the effect of comprehensive worldwide initiatives to remove trade barriers. Their findings, when reversed, describe the consequences of the global contraction that could result from a unilateral action to raise trade barriers against a large industrialized economy and a reciprocal, retaliatory action by that country. That type of trade war could have an extreme cost, lowering national income by between 15 cents and 35 cents for each \$1 decrease in U.S. exports (or imports) in the short term and between 45 cents and 85 cents in the long term.

The income loss from cutting off trade with a big emerging economy, such as China, is likely to fall somewhere within that broad range (from 5 cents to 35 cents for each \$1 of lost exports in the short term), depending on the nature of the sanction and the trade that is disrupted. For example, unilateral action restricting a few widely available imports to the United States would have a small cost at most; multilateral action affecting many specialized imports could have a large cost.

#### COSTS TO PARTICULAR INDUSTRIES

The direct costs of sanctions for individual U.S. industries would generally be much larger than the net cost to the overall economy. Whatever the size of those losses, they can be significant to the businesses, workers, and communities directly affected by them. Moreover, because the companies and employees who gain from

redirected business as a result of sanctions do not compensate the companies and employers who lose, sanctions may seem unfair.

Although they are largely offset at the national level, the direct losses to an industry can provide a useful indicator of the social costs of adjusting to trade sanctions. Besides the dollar amount of trade disrupted, those social costs would include the costs to workers of finding new employment or relocating and costs arising from the uncertainty that such changes bring.

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Chairman CRANE [presiding]. Thank you.  
Dr. Haass.

**STATEMENT OF RICHARD N. HAASS, PH.D., DIRECTOR,  
FOREIGN POLICY STUDIES, BROOKINGS INSTITUTION**

Mr. HAASS. Thank you, sir. With the Chair's permission, I will submit a statement for the record and just make a few comments.

Chairman CRANE. Without objection, so ordered.

Mr. HAASS. Thank you, sir. Let me address first the question of unilateral sanctions, and then if I might, say a few things about H.R. 1244.

On unilateral sanctions, the intellectually honest point is that they always have an impact on the target, and from what I can tell, they always have some adverse economic impact on the target.

The problem with them as a foreign policy tool is they also have an adverse economic impact on ourselves, which has to be factored in, and they have multiple impacts on the target, not always the ones that we intend.

One therefore has to factor into any assessment of a particular unilateral sanction the overall impact on the target society from a humanitarian point of view, a political point of view, and a military point of view. In many cases, unilateral sanctions seem to reinforce the power of authoritarian regimes. They seem to provide an excuse for the regime's own economic incompetence. They seem to create humanitarian hardship.

And in at least one instance, that of Pakistan, they seem to have stimulated the very activity we wanted to discourage, which was a greater emphasis on the development of nuclear weapons.

My own tentative conclusion on the subject of unilateral sanctions is that on balance they are not an attractive foreign-policy instrument for the United States. I say "tentative" because, at the Brookings Institution, we are in the midst of doing an overall assessment of the impact of American sanctions, and, indeed, we plan to publish in less than a year's time our own set of impact statements, which we would then make available to the Congress and the Administration and others as they assess the utility of this foreign-policy instrument.

I realize that if one's enthusiasm for unilateral sanctions is finite, as mine is, it then creates certain policy questions or challenges. Clearly, getting other countries on board the sanctions train can be difficult. For the most part, I would discourage secondary sanctions, i.e., the sanctioning of those who won't join us in the original sanction.

From what I can see, that tends to cause as many diplomatic problems as it resolves. Indeed, it tends to spread the area of dis-



agreement to our friends and distracts attention away from the target.

If one runs into resistance to join sanctions, one is obviously left with diplomacy. One is left with options of so-called conditional engagement, to introduce incentives as well as penalties as a way of winning others on board. One has the option of watering down the sanctions. Or one has the option of turning to other foreign-policy tools, including military force.

One tool that can actually help build some support for sanctions is compensation for other countries. One thing we learned during the gulf war experience is that a device that proved useful to rally such countries as Egypt and Turkey to the side of sanctions was to compensate them for the economic hardship they would bear because of the sanctions.

And one of the things Congress may want to think about, and I realize this runs against the grain given the financial situation we always find ourselves in, is the creation of a dedicated account for the purpose of building support for American sanctions. This account would be made available to compensate countries who paid a real price for joining us in a sanction even though they were not in a position economically to sustain that price.

Let me just say a few things about the proposed legislation. My bottom line is that I essentially support it. In particular, I find very positive the call for a narrow focus of sanctions, the emphasis placed on humanitarian exemptions, the provision for Presidential waivers on national-security grounds, and the emphasis on transparency, including reporting requirements by both the CBO and various agencies within the executive branch. I think all of that is to the good.

And I would very much hope that you and your colleagues would be able to pass such legislation. Indeed, I would also hope that the Administration would come out foursquare in support to it.

That said, let me just suggest four parts of the legislation that I would at least raise questions about. The first is the so-called sunset provision, the idea that sanctions would go away after 2 years unless they were specifically re-enacted. I have got three problems with that. One is a philosophical one. I have trouble with the idea that inaction leads to policy change. For a great power like the United States, reliability and consistency are terribly important. I just don't like the fact, here or anywhere else, that inaction by Congress or anyone else can trigger a policy change.

Second, I do not think automatic sunset provisions are necessary given the waiver authorities that are written into the law. A waiver gives the President the option at any time, short of even the 2 years, to reduce or eliminate a sanction.

Third, and as we have learned with China, having a 2-year or any arbitrary time limit guarantees a public debate just prior to expiration. And I am not sure it would always serve the purposes of American foreign policy to have a formal public debate about particular sanctions. I can imagine a situation where diplomacy or private efforts would be at a certain point where a public debate could actually work against some effort to bring about, say, behavioral change on the part of a target.

So, again, I would question the desirability of writing into law a fixed requirement for the automatic elimination of sanctions after 2 years.

Second, in order to build support among some of your colleagues who may be skeptical about this legislation, one idea that might be valuable is to offer Congress a means to challenge Presidential waivers. You have such a mechanism in other pieces of legislation. This could be accomplished using joint resolutions, which would then go to the President, who would then have the option of vetoing it. Congress would then have the option of overriding the veto. I think that would be consistent with Supreme Court decisions in this area. And again, if that were the price of passing this legislation, I would think it would be a price worth paying.

Third, the legislation talks about compensation for those affected in the agricultural community by sanctions. I would simply raise the question, and I am not an expert here, about the possibility of extending compensation to others. They might be individual workers, individual firms, individual communities. But it is not clear to me that, for export sanctions, the costs should be borne so disproportionately by a few.

Last, the legislation recommends the establishment of a sanctions review Committee in the executive branch that would oversee sanctions. I assume this review would occur both before sanctions were adopted and thereafter. That is a welcome idea; however, when I go down the list of executive branch officials who would be involved, one of the people conspicuously absent is the director of Central Intelligence. I would think the DCI is someone we would want to have at the head table since, obviously, intelligence-community assessments of the actual or likely impact of a sanction would be an important component of decisionmaking.

Thank you.

[The prepared statement follows:]

**Statement of Richard N. Haass, Director, Foreign Policy Studies, Brookings Institution**

Mr. Chairman: Thank you for this opportunity to testify on the use and effect of unilateral economic sanctions and on H.R. 1244, the "Enhancement of Trade, Security, and Human Rights Through Sanctions Reform Act."

I will take these two related but separate matters in sequence. Unilateral sanctions always have some impact, both on the United States and on the target country. U.S. sanctions have clearly weakened the economy of Cuba, slowed investment in Libya and Iran, and hurt Pakistan, which, prior to sanctions, received substantial U.S. economic and military assistance.

But it is also important to contemplate the side-effects of unilateral American sanctions. These consequences transcend lost American exports, profits and jobs. In the case of Cuba, U.S. sanctions may have made it easier for the Castro regime to maintain control over the Cuban economy and society. There and elsewhere (including Iran), American sanctions have been exploited as justifications for regime repression and excuses for regime incompetence. Sanctions may have had the perverse effect of weakening civilian rule in Pakistan and increasing its focus on nuclear weaponry.

As a rule, unilateral sanctions tend to be little more than statements or expressions of opposition except in those instances in which the tie between the United States and the target is so extensive that the latter cannot adjust to an American cut-off. Over time, economic sanctions tend to lose their bite. In a global economy, unilateral sanctions tend to impose greater costs on American firms than on the target who can usually find substitute sources of supply and financing. The impact of such sanctions can be offset by factors beyond our control, as in the case of Iran where increases in the price of oil more than compensated for any penalty introduced as a result of U.S. policy. Iran is also a textbook example of how unilateral

American sanctions can be little more than a windfall for European companies who otherwise would have difficulty competing.

Even advocates of unilateral sanctions would admit that their impact is second best. The problem is that it is often extremely difficult to garner international support for particular sanctions. Prospects for succeeding in bringing others on board tend to reflect a range of factors, including commercial stakes, policy preferences, and the availability of funds to compensate lost revenues. Sanctions tend to work best when international political consensus exists and non-targeted countries who must bear an economic cost as a result of the sanctions are compensated. In most instances, other governments prefer no or minimal sanctions. Other countries tend to value commercial interaction more than the United States and are less willing to forfeit it voluntarily. In addition, the notion that economic interaction is desirable because it promotes more open political and economic systems is an argument that normally has more resonance in other capitals. Such thinking makes achieving multilateral support for sanctions less feasible than the United States tends to want. It usually takes something truly egregious—Saddam's invasion and occupation of Kuwait, Libya's support of terrorism such as at Lockerbie, the brazen rejection of Haiti's election results and associated widespread human rights abuses—to overcome this anti-sanctions bias. And even in the case of Iraq, generous compensation for affected states, such as Egypt and Turkey, was a prerequisite for them to sustain support for sanctions.

Trying to compel others to join a sanctions effort by threatening secondary sanctions against those third parties unwilling to sanction the target can cause serious harm to a variety of U.S. foreign policy interests. This is what has happened with Cuba, Iran and Libya; in all three instances, sanctions now apply to overseas firms who violate the terms of U.S. legislation. This threat has had some deterrent effect on the willingness of certain individuals and firms to enter into proscribed business activities, but at a significant political price. It has increased anti-American sentiment, stimulated challenges that have the potential to jeopardize the future of the World Trade Organization, distracted attention away from the provocative behavior of the target governments, and made Europeans less likely to work with us in shaping policies to contend with post-Cold War challenges.

Multilateral support for economic sanctions should normally constitute a prerequisite for their introduction by the United States. (This is especially true for export sanctions. If sanctions are considered desirable, the United States might want to give thought to import controls, which can distribute the cost of the sanction within the United States yet still send a message to the target.) Such support need not be simultaneous, but it should be all but certain and likely to follow with little delay. Unilateral sanctions should be avoided except in those circumstances when the United States is in a unique situation to derive leverage based on the economic relationship with the target. Implementing this guideline will require intense, often high-level diplomatic effort and even then may not succeed. If this is so, then the task for policymakers is to compare what can be achieved by weaker sanctions to an alternative policy course, including both the use of incentives linked to improved behavior on the part of the target and the application of military force.

One instrument that can increase compliance is the provision of assistance to third parties in order to offset the economic cost of implementing sanctions. Arrangements to compensate countries whose support for the sanctions is central can thus be critical. This was the case with the Iraq sanctions; it is possible that sanctions against Haiti might have proved stronger had the Dominican Republic been more cooperative. Greater use should be made of Article 50 of the UN Charter, which sets forth a means by which third party states hurt by sanctions aimed at another state can approach the Security Council for redress. In addition, Congress might consider establishing a fund for this purpose within the U.S. foreign assistance budget. Given the current assistance budget, this money should be additional rather than come out of already underfunded aid accounts.

A call for greater multilateralism is not identical to a requirement to seek UN Security Council backing. Indeed, the United States should be careful about bringing sanctions to the UN Security Council. Although UN endorsement can buttress international compliance and complicate the task of any party seeking to ease sanctions—Iraq comes to mind here—it can also place the United States in the difficult position of having to choose between continued compliance with a policy judged to be no longer desirable or acting unilaterally in defiance of the Security Council, a step the United States is understandably reluctant to take as it could create precedents easily abused by others.

Let me now turn to H.R. 1244. I want to say at the outset that I am sympathetic to H.R. 1244 and would welcome its passage. It would introduce much needed transparency and oversight into a process that has often lacked both.

Several of the principles embraced by the legislation are worthy of specific mention and endorsement. Sanctions should be targeted as narrowly as possible on the entities involved in the activity that we oppose. As a rule, humanitarian trade ought to be exempted, again to limit the collateral damage of sanctions. Clarity of purpose is always desirable, as is giving the president the authority to adjust or waive sanctions in the interest of national security. Such flexibility is essential if the executive is to have the necessary flexibility to conduct foreign and defense policy and if sanctions are to contain exit strategies that can provide incentives to targets to change their ways. I would similarly welcome the many reporting requirements contained in the legislation for both the executive branch and the Congressional Budget Office at the time a sanction is initiated and at regular intervals thereafter; the more details contained in such reports the better.

Let me end with a few questions and suggested modifications of the proposed legislation. I am uncomfortable with the "sunset" provision that would terminate any unilateral sanction after two years except where Congress acts to reauthorize. This is reminiscent of War Powers, and here, like there, I think it wrong to place the burden on those who would continue policy. I also worry about regular high-profile debates that could make it more difficult to modify existing policy. I would instead put the emphasis on transparency and a requirement for serious reporting by the executive branch and congressional support agencies both prior to congressional action and at regular intervals thereafter. The proposed waiver authority also introduces needed flexibility into the policy process.

Second, it is possible that the legislation's approach to waivers would prove too "anti-sanction" for some members. In order to increase prospects for passing reform legislation, it might be useful to introduce some mechanism by which Congress can challenge a waiver, possibly by joint resolution which, if vetoed by the President, could then be made to stand by an override.

Third, it is not obvious why compensation should be limited to the agricultural sector. Why not consider extending to firms and workers in other realms?

Fourth and last, I would add the DCI to the Sanctions Review Committee as intelligence community assessments are sure to be central to the debate over projected and actual effects.

Thank you for this opportunity to appear before you and share my thoughts on this important set of policy issues. I look forward to any questions you might have.

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Chairman CRANE. Thank you, Dr. Haass.

Dr. Haass, wouldn't you agree that experience has shown that it is extremely difficult to remove sanctions once they are in place, even if it becomes apparent that the sanctions aren't having the desired effect?

Mr. HAASS. Yes, sir.

Chairman CRANE. And second, shouldn't we have some procedure in place to review sanctions so that ineffective policies don't remain on the books for political rather than practical reasons?

Mr. HAASS. I agree. There are different types of reviews, some of which are in this legislation and that I would welcome. One is simply the intellectual review of sanctions every 6 months or every year. It could be on an unclassified or classified basis, or both.

The executive branch should be asked to do it, and I would think that you would want to turn to the various Congressional support agencies, whether it was CBO, CRS, or what have you, to assist you in that task. So clearly we want to have review.

Second, having waivers in place allows you at any moment to adjust the sanction. You move away from a switch metaphor and you move toward a reostat metaphor. And I think that is exactly what we want to have. We want to have the ability to adjust sanctions to serve our foreign-policy interests, and I believe waivers would help get around what I took to be the thrust of your first question, sir, which is the problem of a sanction once it is in place. If you

have waivers, that seems to be the best way to deal with an existing sanction if you decide that less would be preferable.

Chairman CRANE. Well, we have, as you know, the annual renewal of normal trade relations with China, and that is always a sticky battle. And it will be coming up again in another month or so.

Dr. Farmer, the CBO study noted that the most common targets of U.S. unilateral sanctions are small, developing economies. Aren't these the same economies that hold the most potential for economic growth and where it is critical for U.S. firms to establish a base and market share for future U.S. economic growth?

Mr. FARMER. We tried to note that there are fast-growing economies, and the likely costs of sanctions on those economies would be different from the costs of sanctions on the many smaller, stagnant economies.

China, in particular, is a special case. So many of our exports to China look like those to other industrialized nations, whereas so many of our imports from China look like imports from other developing countries. So it would be very hard to assess the cost of sanctions against China. It is just a wide range of possibilities, some extreme.

Chairman CRANE. The CBO study concludes that unilateral U.S. sanctions generally result in a smaller cost to the U.S. economy than multilateral sanctions. Can you explain that?

Mr. FARMER. It's actually just what we have heard today: unilateral sanctions are not effective in halting trading with the target nation. There are clear, significant costs to individual businesses, but the overall economy is hurt by restrictions on overall economic activity, and unilateral sanctions don't have that effect.

There is kind of a dilemma in that unilateral sanctions are probably more costly for individual firms and multilateral sanctions less costly, whereas for the Nation as a whole, it is just the opposite.

Chairman CRANE. Mr. Levin.

Mr. LEVIN. Oh, thank you. And thank you for your patience. Mr. Crane, I will try to spread the word. This has been helpful testimony. So let me just say briefly that Dr. Weintraub, I was talking with the staff, you will make available the three studies, will you, to make sure that we have them.

And Mr. Farmer, you referenced to China. Our trade over the years, I think, with China will change and look more and more like industrialized nation imports to us, but that is not too relevant to what we are talking about today.

So I will finish. Dr. Haass, like the others, your testimony is very helpful, and we will look forward to the Brookings studies. I think your analysis about sunset is very salient. I think it would be risky for a number of reasons that you have related.

And I think, Mr. Chairman, as we look at this proposal, this legislation, that we should accelerate our discussions with the Administration, but also with various experts, or people who are close to experts, to see if we can handle the outstanding issues here. And I think, Dr. Haass, you have put your finger on several of them.

So, anyway, this has been a useful hearing and, hopefully, it will stimulate some more discussion and so we can begin to move legislation.

Thank you.

Chairman CRANE. Thank you. And I want to thank all of our panelists where today. We appreciate your input, and don't confine it just to appearing before the Committee. Having a steady flow of information from you is very valuable. So we express appreciation for your patience and for your presentations today and look forward to seeing you again soon.

That concludes our hearing.

[Whereupon, at 2:13 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

#### **Statement of American Bar Association, Section of International Law and Practice**

##### **RECOMMENDATION**

*Resolved*, That the American Bar Association recommends that the United States adhere to the following principles in the adoption and maintenance of export controls and economic sanctions measures:

First, to consult with, and seek the support and cooperation of, foreign governments sharing common objectives in devising and carrying out programs to constrain foreign trade and investment detrimental to shared U.S. national security and foreign policy objectives.

Second, to refrain from the adoption or maintenance of extraterritorial foreign trade control measures that do not conform to jurisdictional principles of international law as generally accepted by the international community and create the potential for conflicts with other nations, including:

- Controls on foreign trade transactions of foreign corporations, where those transactions have no jurisdictional relationship to the United States other than ownership interests of U.S. nations in the foreign corporations;
- Controls on foreign trade transactions have no jurisdictional relationship to the United States other than the U.S. origin of transaction products, content or technology; and
- Retaliatory trade sanctions on foreign parties by reason of their foreign trade transactions, where those transactions have no jurisdictional relationship to the United States and are not in violation of any U.S. law that conforms to jurisdictional principles of international law.

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#### **Statement of American Farm Bureau Federation**

The American Farm Bureau represents over 4.8 million member families in the United States and Puerto Rico. Our members produce every commodity grown in America and depend on access to customers around the world for the sale of over one-third of our production. However, U.S. farmers and ranchers have been denied access to five export markets due to unilateral economic sanctions: Iran, Libya, Sudan, Cuba and North Korea.

The future of American agriculture depends upon access to foreign markets. Especially today, with agricultural exports projected to decline more than \$2 billion from 1997 levels due to the Asian financial crisis, any action such as an embargo or sanction does direct and long-term harm to farmers and the agricultural economy.

Farm Bureau has longstanding policy opposing artificial trade constraints such as sanctions. We believe that opening trading systems around the world and open engagement with our trading partners are the most effective means of achieving international harmony and economic stability.

Farm Bureau believes that all agricultural products should be exempt from embargoes and unilateral sanctions, except in the case of armed conflict. Should trade embargoes or restrictions be declared in case of armed conflict, the embargo or sanction should apply to all trade, technology and exchanges. An embargo should not be declared without the consent of Congress.

Moreover, the threat of embargoes or other restrictions adversely affects markets and is an inappropriate tool in the implementation of foreign policy. If an embargo is enacted, farmers should be compensated by direct payments for any resulting loss.

Finally, all export contracts calling for delivery of agricultural commodities or products within nine months of date of sale should never be interfered with by the U.S. government, except following an embargo consented to by Congress. This sanctity of contracts is essential to maintain the reputation of the United States as a reliable supplier.

The cost to American farmers resulting from sanctions and embargoes is high. According to USDA, the Soviet grain embargo of the early 1980's cost the United States about \$2.3 billion in lost farm exports and government compensation to American farmers.

When the United States cut off sales of wheat to protest the Soviet invasion of Afghanistan, other suppliers—France, Canada, Australia and Argentina—stepped in. These countries expanded their sales to the Soviet Union, ensuring that U.S. sanctions had virtually no economic impact on the target country.

Not only do unilateral sanctions inflict no economic damage on the target country, they often result in little change in the foreign policy actions of that nation. Our competitors in these markets rub their hands with glee when the United States imposes unilateral sanctions. They are quick to expand their sales and take over the U.S. share in these foreign markets. Moreover, U.S. producers are branded unreliable suppliers and lose access to important markets for decades to come. Unilateral sanctions on agricultural exports must end.

In addition, unilateral sanctions are often counterproductive because target nations use images of suffering, innocent civilians to depict the United States as cruel and vindictive, thereby discouraging other nations from following suit.

As you know, the Administration announced a recent policy change with respect to unilateral sanctions now in force for Iran, Libya and Sudan. Commercial sales of food, medicine and medical equipment are eligible for exemption from sanctions to these nations.

We understand that the new policy will require exporters to obtain an export license covering a specific, already negotiated sale. Each export request will be reviewed on a case-by-case basis.

This new policy does not signal automatic approval of agricultural sales. Moreover, the new policy does not completely resolve the issue of U.S. producers being viewed as unreliable suppliers, because, in theory, an agricultural sale could be denied. The Administration must grant approval to all agricultural sales in order to reverse the unreliable supplier image caused by unilateral sanctions.

As you are well aware, the Congressional Budget Office (CBO) recently conducted a study on the economic impact of unilateral sanctions on the U.S. economy. The CBO concluded that such sanctions "can be costly for individual U.S. businesses that lose out when markets adjust to accommodate new trade flows." The CBO also noted, however, that the overall cost of unilateral sanctions is negligible because the nation's total levels of trade and investment do not change as a result of sanctions.

We believe that this study underestimated the significant impacts on a sector-by-sector basis, particularly the devastating decline in loss of exports for U.S. agriculture. As a result of unilateral sanctions, over 14 percent of our rice market, 10 percent of our wheat market, 5 percent of our vegetable oil market, 5 percent of our barley market and 4 percent of our corn market have been taken off the table. This loss of market access is not "negligible." Given today's low commodity prices and declining agricultural exports, we simply cannot afford to have our access to export markets cut off.

It should be noted that when any type of sanction or embargo is imposed, either political or trade related, agriculture is the sector that is often the first to be hit in retaliation. To make matters worse, customers lost due to unilateral sanctions are very hard to win back. A case in point is the growth of soybean production in South America, primarily Brazil, as a result of embargoes in the 1970s and 1980s.

Several Farm Bureau members recently participated in a trade exploratory mission to Cuba. It became very apparent on that trip that Castro regime has had an oppressive effect on the Cuban economy. It was also strikingly obvious, however, that U.S. sanctions on this tiny island have not had any impact in ending Castro's influence. U.S. unilateral sanctions on trade with Cuba have now been in effect for more than three decades with no tangible results. Meanwhile, leading agricultural economists predict that U.S. exports to Cuba could reach \$1 billion annually if the sanctions were lifted. Cuban citizens are hungry for U.S. products and want to engage with Americans in trade. It is time that we lift unilateral sanctions on agricultural exports and stop making our producers pay the price.

The United States has an unprecedented opportunity to promote its values throughout the world by peaceful engagement. Reaching out, not withdrawing behind sanctions or embargoes, is the best way to achieve change.

**Statement of Electronic Industries Alliance, Arlington, VA**

(THE USE AND EFFECT OF UNILATERAL SANCTIONS)

I. INTRODUCTION

Thank you for the opportunity to provide testimony on the use and effect of unilateral sanctions. Representing the entire spectrum of companies involved in the manufacture of electronic components, parts, systems and equipment for communications, industrial, government and consumer uses, the Electronic Industries Alliance (EIA) is the premier alliance of trade associations for the U.S. electronics industry.

EIA recognizes that a strong and vibrant high-tech industry is vital to the economic and national security of the United States. EIA is aware of the important role of sanctions as a tool of foreign policy. But we also recognize the severely limited effectiveness of unilateral sanctions, as well as the vital importance of a competitive and innovative technology sector to keep our economy strong and our armed forces a step ahead of any adversary.

II. REALITIES OF THE GLOBAL ECONOMY

With over 2000 member companies, accounting for 80 percent of the \$550 billion electronics industry, EIA represents the most dynamic and competitive industry in the U.S. economy today—actually, in the world economy today. The companies we represent operate globally, they think and plan in global terms, and they face intense international competition. The fact is, the days when U.S. companies dominated the high-technology industry are over. Similarly, the days when the domestic U.S. market could sustain the industry are also over: we cannot do business without trading extensively in the global economy. This is essential to keep in mind as we formulate public policy in this area.

As any successful CEO will testify to, competing—indeed, surviving—in the global economy means exporting. The phenomenal success of the U.S. technology industry comes from its entrepreneurialism, its aggressiveness, its willingness to compete—all those free market forces that drive innovation. In this kind of business environment, tapping new markets before the competition does is the key to success. In 1997, more than one-third of what the U.S. electronics industry produced was exported overseas, over \$150 billion in goods. That means more than a third of the 1.8 million employees who work for U.S. electronics companies depend on exports for their jobs, and the percentage goes up every year. Too often, we fail to recognize the profound implications of these facts.

We must also recognize that our high-tech companies are the engine of technological innovation and economic growth in the world today. The U.S. economy is the most competitive in the world due in no small part to the amazing advancements our companies have achieved. Technologies which, not long ago, had only military or limited civilian applications are now pervasive in our society, and the greater economic efficiency stemming from this diffusion of technology has been the driving force for the remarkable prosperity so many Americans are experiencing.

The impact of unilateral sanctions on how this industry competes in the global economy is substantial. They hold us back from competing by forcing us to cede the playing field to our overseas competitors. In short, we agree that when sanctions are used properly, they can be a useful tool in pressuring or containing hostile regimes. But they are a tool to be used carefully and sparingly because of their severe negative impact on U.S. industry and their often-limited impact on the target country.

III. U.S. SANCTIONS POLICY MUST REFLECT POST-COLD WAR REALITIES

EIA believes that U.S. sanctions policy must reflect the new commercial and political realities of the post-Cold War world. During the Cold War period, export restrictions on high-tech products were based on the then-accurate premise that if you prevent U.S. companies from exporting technology to specified destinations, you will have denied that destination the use of that technology. But this premise no longer holds. Whereas U.S. industry once had a near-monopoly over the development and production of advanced technology products, today many countries produce the same, or even better, commercial technologies as U.S. manufacturers. Furthermore, the governments of our competitors do not impose the same restrictions on their export activities. When U.S. companies cannot sell abroad, our competitors are only too willing and able to fill the void.



Today, the threats to our national interests are more diffuse than during the Cold War, coming from rogue terrorist cells or a few outlaw nations. With the collapse of the Soviet bloc, the multilateral consensus among our key allies regarding the source of new threats collapsed as well. That is the reality we are faced with as we consider unilateral sanctions. The exceptions are the regimes to control Weapons of Mass Destruction and the multilateral sanctions against so-called rouge states like North Korea and Iraq. In these circumstances, strong multilateral controls are more effective. However, stopping U.S. commercial exports of products and technology that are not restricted in the case of our competitors does nothing to protect our national security or advance our foreign policy.

An export restriction is only as effective as its ability to limit a target country from obtaining the desired goods and technology. Only if the U.S. is able to gain consensus from other countries to impose multilateral sanctions will they be effective. While we recognize that there may be instances where sanctions are needed in order to isolate a country for its undesirable activities, we recommend that they be imposed under strict time limitations combined with a review mechanism that evaluates their effectiveness.

Besides their negative economic consequences and ineffectiveness at isolating problem countries, unilateral sanctions are not a sophisticated tool of foreign policy. Rather, they are usually a knee-jerk reaction to events overseas. Despite their record of failure, unilateral sanctions are too often employed as a foreign policy "quick fix," imposed rather arbitrarily whenever we wish to express our disapproval with a country's actions of the moment.

Unilateral sanctions have been viewed as a cost-free tool to demonstrate "leadership" or to "send a message." Unfortunately, unilateral sanctions do have costs, including loss of marketshare and jobs for the U.S. economy, resentment among our allies, and depriving goods and opportunity from the ordinary citizens of the target country. While we are trying to display leadership, unilateral sanctions only highlight our inability to generate support among our allies. Meanwhile, the "message" we are trying to send is usually either ignored or further antagonizes the target country. In fact, unilateral sanctions are more effective at impressing domestic constituencies within the United States, rather than promoting real change in the offending country's behavior.

As bad as unilateral sanctions are, extraterritorial sanctions—penalties against a company which does business in a sanctioned country, but which is under the jurisdiction of a third country—are even worse. These extraterritorial sanctions prompt especially strong complaints from our allies, serving only to further emphasize the failure of U.S. diplomacy. In the process of isolating the target country with sanctions, we often end up isolating ourselves.

It is for all these reasons that EIA enthusiastically supports the sanctions reform legislation sponsored by Chairman Crane. H.R. 1244 would do something we believe is long overdue: provide a rational procedural framework for considering future U.S. unilateral sanctions. Before imposing a sanction, both Congress and the President would be required to ask themselves a few essential, common-sense questions: Is the sanction likely to be effective? Does it have a clearly defined and realistic objective? What are the likely costs to U.S. industry? Will the sanctions undermine other foreign policy and humanitarian objectives? And finally, have other diplomatic efforts with our allies been initiated? We are also pleased with the bill's guidelines regarding waiver authority, contract sanctity, and the two year sunset provision.

#### IV. INFORMATION TECHNOLOGY CAN ADVANCE OUR FOREIGN POLICY

While EIA is generally opposed to most unilateral sanctions, we recognize that they are likely to remain a popular tool in the U.S. foreign policy arsenal. Thus, we support efforts to minimize their arbitrary use, as H.R. 1244 would require, as well as to allow greater flexibility in their use so as to develop more forward-looking, sophisticated approaches to foreign policy problems. We put forward that one way to accomplish this is to use information technology to promote democratic ideals in closed societies.

In most cases, unilateral sanctions are proposed and targeted against closed societies with repressive governments. However, these sanctions usually fail either to stop a country's aggressiveness towards its neighbors or ease repression of its people. Instead of isolating problem countries from outside influences and ideas, we believe that in some cases we might find more success doing exactly the opposite. We should be flooding these countries with a wide diversity of opinions, images, news, even movies, music, and fashion.

Information technology, especially the Internet, has proven to be a powerful means of delivery for diverse ideas. One of the best examples of how outside ideas

can gradually effect change within a repressive society is Iran. We would argue that the modest easing we are witnessing there has been caused more by the proliferation of satellite dishes and Internet connections among ordinary people than by the U.S. unilateral and extraterritorial sanctions. Indeed, the spread of information technology, such as computers, cell phones, fax machines, and supporting technology, can be among the most effective tools this country has to promote liberalization in the repressive countries we are concerned about most. We in the high-tech industry take pride in the fact that we produce the equipment that enables the free flow of information and ideas in this way, and we believe it should be U.S. policy to allow the use of this technology by repressed peoples. Therefore, we propose that the President should have the authority, where circumstances warrant, to allow exports of technology products and services which enable the free flow of information and promote democratic ideals around the world.

In places where people are subjected to state-sponsored misinformation, we should aggressively promote outside sources of information—what their governments might consider “subversive” influence but which their people are hungry for. We should have confidence in the power of our democratic ideals of openness and diversity to instigate change in authoritarian societies. While we should not provide repressive governments the tools to maintain their authority or threaten their neighbors militarily, we should provide the citizens of these countries the tools to gain a greater understanding of freedom and democracy.

#### V. CONCLUSION

We would like to make clear that we recognize the connection between democracy and economic opportunity. Our companies know that democracies are intrinsically more stable, have more informed, better educated workers, and have more reliable, transparent court systems and regulators than authoritarian regimes do. In short, democracy is good for business. By criticizing unilateral sanctions, it is not our intention to prop up the world’s authoritarian regimes or lend moral support to dictators. It is true that business cares most about the bottom line, and the bottom line is that unilateral sanctions do not work.

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#### **Statement of Willard M. Berry, President, European-American Business Council**

Mr. Chairman and Members of the Committee, thank you for the opportunity to provide this testimony. I am Willard Berry, President of the European-American Business Council. The Council is the one transatlantic business organization that regularly provides actionable information on policy developments and works with officials in both the US and Europe to secure a more open trade and investment climate. Our 85 member companies include many of the largest US and European firms.

As you will recall, I had the honor of testifying before this committee two years ago on this same subject of unilateral economic sanctions. To recap what I said then: experience shows that these measures have had almost no success in achieving their stated aims, namely changing the behavior of the target country. What these measures have instead done is seriously harm business and in doing so have eroded the competitiveness of US-based companies, cost Americans jobs, and strained relations between America and its closest allies.

The EABC is pleased to note, however, a changing attitude in Congress toward the use of unilateral economic sanctions. Only a few years ago, it seemed that a new sanctions bill was being introduced every month. The current Congress, thankfully, has introduced far fewer unilateral sanctions bills. Instead, real momentum is building behind a comprehensive effort to reform the process that governs when and if unilateral sanctions are imposed.

Others testifying will illustrate for you the large economic cost of unilateral sanctions. A recent Congressional Budget Office study estimated this cost at \$19 billion annually. The CBO however went on to suggest that this cost is negligible as it represents such a small percentage of the total economy. I consider \$19 billion in lost exports a serious blow, especially given what \$19 billion in exports would do to help correct the US trade deficit. Furthermore, if the US is going to sacrifice existing and potential US jobs to apply unilateral sanctions, we should be sure to get our foreign policy “bang for the buck.” We must pursue effective policies and not trade American jobs for symbolic gestures.

Not only does the CBO study in our view mischaracterize the cost of sanctions, it also does not measure the full economic impact of sanctions. Specifically, the

study does not include the untold tens of billions of dollars in secondary costs of unilateral trade sanctions. These include the loss of joint venture opportunities (a critical element of global competitiveness), layoffs in the US by foreign investors, the loss of supply relationships, and a retraction in outbound investment.

That is why EABC agrees that the US needs to put in place a process that will first look at whether or not a proposed economic sanction will have the desired foreign policy outcome and what other alternatives exist to sanctions before it is imposed. The EABC joins other groups testifying in wholeheartedly endorsing your legislation, Mr. Chairman, that would comprehensively reform the sanctions process. This important legislation nearly passed in the Senate last year, and we are optimistic that momentum is building up to pass it this year.

While progress on sanctions reform at the national level is good news, I wish to bring the committee's attention to another area of concern to our members, namely the considerable economic damage done by state and local sanctions. Two years ago it seemed that states everywhere were taking the country's foreign policy into their own hands and imposing sanctions on companies doing business in Burma, Indonesia, or other nations. The EABC fully supports the federal government's leadership and interest in protecting human rights abroad. We strongly agree with the court ruling that struck down a Massachusetts select purchasing law on constitutional grounds, namely that states may not preempt the federal government in making the nation's foreign policy. As you know, Massachusetts appealed the decision.

Although we are confident the appeals court will uphold the lower court ruling striking down the Massachusetts law, we are concerned that state and local lawmakers may look to other forms of sanctions, such as selective investment laws, in an attempt to skirt the Massachusetts ruling. EABC outreach to state and local lawmakers has found that many of them do not seem aware of the economic damage done to their states or of the constitutionality of such laws, which can lead to the expensive prospect of spending taxpayer dollars to defend unconstitutional laws.

Unfortunately, there is an almost endless list of human rights issues that some interest groups feel can be addressed with state and local sanctions. Where and when will we draw the line? This is not a realm for state and local activity. It is easy for policymakers in subfederal governments to act on a perceived moral need to impose sanctions. But when they create a mess of our foreign policy, these officials are not faced with the negative repercussions nor do they have the responsibility of defending themselves in international fora. They do not have to deal with our allies, who are often hurt by US sanctions, and they do not have to answer to the international community for their violations of multilateral commitments and treaty obligations. The constituents of state lawmakers do pay the price, however, when investment dollars go elsewhere, when plants are relocated or shut down, when US companies are seen as unreliable partners, and when US exports are blocked in retaliation for the sanctions.

It is for the Administration and you here in Congress to balance multiple foreign policy objectives, including nuclear nonproliferation, preventing terrorism, and promoting human rights. We can only achieve these objectives in concert with our allies. The US cannot strike multilateral deals to address these problems if states and localities undermine such deals by acting on their own. State and local officials should recognize that imposing sanctions has significant global effects. They should leave foreign policy to those with the responsibility, expertise, and constitutional authority to conduct it.

That's why the EABC hopes that rulings in the Massachusetts case—and especially a possible Supreme Court ruling—will send a clear signal to state and local officials that sanctions are not a “political freebie,” and that foreign policy must be left to Washington. We very much welcome any effort here in Washington—both in the Administration and here on the Hill—to discourage states and localities from taking foreign policy into their own hands. The EABC hopes that in addition to reforming the sanctions process at the national level Congress will not forget the economic damage done by state and local sanctions.

In conclusion, Mister Chairman and members of the committee, the EABC wishes again to thank you for this opportunity to submit written testimony. We also wish to express our sincere gratitude to you, Mr. Chairman, for once again championing free trade and leading the fight to bring moderation and thoughtfulness to the process by which the US considers using unilateral economic sanctions. We have come a long way in the last two years, but much work remains, and the EABC stands ready to help you in any way we can.

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**Statement of Frutarom, Inc.**

Mr. Chairman and Members of the Subcommittee, in follow up to our testimony of May 27, 1999, we wish to offer a statement in support of H.R. 1244, Enhancement of Trade, Security, and Human Rights through Sanctions Reform Act.

Providing a sensible framework to assess future unilateral sanctions policy is imperative to American business. If the sanctions against Sudan had been evaluated under the framework proposed in H.R. 1244, American gum arabic processors likely would not have been injured as they have been under the present structure. If an evaluation had been made under the criteria outlined in the bill, a determination would have been reached that there were no reliable sources of supply for gum arabic outside of Sudan and that American gum arabic processors would be directly harmed by such sanctions. If an appropriate methodology had been used, the sanctions against Sudan would have been targeted narrowly to hurt the Government of Khartoum, not American gum arabic processors and their families. As a result of current policy, the sanctions against Sudan have benefited Sudan economically and devastated the businesses of American gum arabic processors.

We agree with Under Secretary Eizenstat that H.R. 1244 must include a stand-alone national interest waiver authority that would apply to all future unilateral sanctions legislation. At present, the bill provides only that it is the sense of Congress that any future unilateral sanctions legislation "should" provide national interest waiver authority. The legislation must authorize the President to waive a sanction, or waive the applicability of a sanction on a specific industry sector, if it is in the national interest to do so.

We continue to press the State Department with our pending license application to waive the Sudanese sanctions to permit badly needed imports of gum arabic, but no such waiver has been granted as of this date. We understand that the reluctance to grant our application reflects the strongly held views of some officials within the State Department that the United States must not fail to uphold human rights. We agree that human rights must be upheld in our own country and throughout the world. But unilateral sanctions, no matter how well intended, which hurt Americans without achieving stated policy goals, we believe, do not meet with the approval of this Committee.

American companies will continue to lose competitive advantage to foreign competition in domestic and international markets unless you act now to reform our government's system for implementing unilateral sanctions. We look forward to the passage of H.R. 1244 by the House this year.

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IMPORTERS SERVICE CORPORATION  
JERSEY CITY, NJ  
May 26, 1999

The Honorable Philip M. Crane,  
*Chairman, Trade Subcommittee*  
*House Ways & Means Committee,*  
*Washington, D.C.*

DEAR CONGRESSMAN CRANE:

We thank you and the staff of the Trade Subcommittee for this opportunity to provide our views regarding the present prohibition upon importing into the United States gum Arabic from Sudan. Importers Service Corporation is one of three companies in the United States that, prior to the November 1997 embargo, imported raw gum Arabic from Sudan, processed it in the United States, and sold the processed gum to end users. As explained more fully below, the imposition of the Sudanese embargo has crippled our business, yet total exports from Sudan of gum Arabic have increased. Thus, as applied to gum Arabic, the embargo has had the effect of damaging U.S. companies without inflicting any corresponding damage upon the government of Sudan. We believe that, under these circumstances, the import ban applied to gum Arabic should be lifted.

BACKGROUND

On November 3, 1997, President Clinton issued an Executive Order blocking Sudanese government property in the United States and prohibiting U.S. commercial transactions with Sudan. In the accompanying letter to the United States Congress, President Clinton stated that, "we intend to license only those activities that serve

U.S. interest.” Among those activities President Clinton cited was, “the importation of products unavailable from other sources, such as gum Arabic.”

Following the issuance of the November letter to Congress, Importers Service Corporation, supported by 13 industry associations representing the thousands of U.S. companies that use the product to manufacture items that U.S. consumers use every day, applied to the Department of the Treasury’s Office of Foreign Assets Control (OFAC) for a license to continue to import the Sudanese product into the United States. Contrary to the assurances provided by the Clinton Administration to the U.S. Congress, OFAC declined to grant licenses to us beyond a one-time exemption for 1998. A second license application for 1999 has been pending without a decision since December 1998. As explained below, any continued inability to import raw gum Arabic from Sudan will threaten the very existence of our small company as well as the reliability of the supply of gum Arabic to thousands of U.S. companies. However, it will have no negative impact on the government of Sudan.

#### WHAT IS GUM ARABIC?

Gum Arabic is a naturally occurring product that is exuded from the stems and branches of the acacia tree. It is a key ingredient in a variety of soft drinks, baking and confectionery items, dietary fiber products, lithography, cosmetics, pharmaceuticals and other industrial applications.

- In confectionery products, gum Arabic retards sugar crystallization and emulsifies fat to keep the candy uniform throughout the piece.
- In beverages, gum Arabic is the preferred emulsifier for citrus oil containing flavor emulsions, and has the ability to stabilize foam on beer and soft drinks.
- In pharmaceutical products, gum Arabic is used to bind medicines into uniform tablets or syrups.
- In cosmetics, gum Arabic imparts spreading properties and gives a protective coating and smooth feel.
- In dietary fiber products, gum Arabic is an ideal ingredient because of its low viscosity, bland flavor and high fiber content.

Two critical facts need to be emphasized with respect to gum Arabic. First, for many of these products, there is no suitable alternative ingredient to the use of gum Arabic. Thus, an inability to obtain gum Arabic could have extremely disruptive effects on the United States economy. Second, for most applications, only a very small quantity of gum Arabic is used to obtain the desired quality or effect. Thus, the importance of gum Arabic to entire United States industries is belied by the small overall total of imports into the United States.

#### HOW IS GUM ARABIC PRODUCED?

Gum Arabic is harvested from wild acacia trees. Since precise climatic conditions (hot weather, poor soil, aridity) are necessary for the acacia trees to exude gum Arabic, efforts to date to cultivate the product in other regions of the world (including the U.S. and South America) have proven unsuccessful.

#### WHERE IS GUM ARABIC FOUND?

Although quantities of grade one quality gum Arabic are found in countries such as Chad and Nigeria, Sudan’s gum Arabic harvest accounts for more than 70 percent of the world’s supply of this product on an annual basis (and almost 90 percent of the world’s reliable supply). Currently, the only entity authorized to export gum Arabic from Sudan is the “Gum Arabic Company,” a trade coalition in which the Sudanese government owns a 30 percent interest.

#### WHY MUST THE UNITED STATES IMPORT GUM ARABIC FROM SUDAN?

As noted above, for many applications, there is simply no substitute or alternative to gum Arabic. Thus, it is a necessary commodity for entire industries, including the pharmaceutical, beverage, flavoring, candy and printing industries. A study conducted by the U.S. Department of Commerce shortly after the embargo was imposed suggested that adequate supplies of gum Arabic could be obtained from sources other than Sudan. However, we believe that Commerce’s analysis is inaccurate in several ways. First, the Tariff Schedule categorizes all gum Arabic under one tariff heading, making it impossible to distinguish between high-grade gum Arabic from Sudan and the low-grade gum utilized in different industry applications that is available from a number of other countries. Secondly, the Commerce analysis identifies European countries as originating countries, when they in fact are merely purchasing the Sudanese product and selling it to the United States in a finished form.

Finally, the U.S. data shows a number of countries that have no natural source of the supply as originating countries. These countries are not gum Arabic growers, they are simply reselling the Sudanese product.

In fact, the U.S. government's own numbers speak for themselves. According to the U.S. Census Bureau, in 1996, the United States demand for gum Arabic was 22 million pounds. Similar statistics show that the annual Chad crop is 13.2 million pounds per year, and Nigeria's is 4.4 million pounds. Taken together, even if the U.S. manufacturers were able to purchase all of the Chad and Nigerian crop (i.e. if European competitors purchase *no* gum from Chad or Nigeria), the supply would still fall short by 4.4 million pounds. Given the current state of world production, there is simply no alternative to importing the Sudanese product.

#### IS GUM ARABIC AN IMPORTANT SUDANESE EXPORT TO THE UNITED STATES?

For many applications, there is no substitute for gum Arabic. It is therefore a very important product for the U.S. At the same time, because only small amounts of gum Arabic are necessary for most applications, total imports into the U.S. are small and the importance to Sudan of exports to the U.S. is small as well. On average, Sudan produces a total of 26,000 metric tons of gum Arabic per year. The United States imports 7,000 to 10,000 metric tons of the raw Sudanese product on an annual basis. A majority of the remaining product is sold to companies in France (the largest buyer) and England. In the years before the U.S. embargo was imposed, the price of the product ranged from \$2,200/mt to \$4,000/mt. U.S. purchases of gum Arabic from Sudan amounted to \$5.6 million through November 1997, \$9 million in 1996 and \$20 million in 1995.

#### WHAT HAS BEEN THE EFFECT OF THE "GUM ARABIC" EMBARGO?

*The Market for Grade 2 Gum.* At the beginning of crop year 1999 (crop years span from October to October), French-based gum Arabic manufacturers artificially increased the price that U.S.-based manufacturers have to pay for Chadian Grade 2 gum Arabic. First, they purchased a significant quantity of grade 2 material through their long-established connections in the Chadian market. They then offered to purchase additional crude material at 25 percent over the current market price, and purchased a small amount of material at this price to legitimize their offer. This caused all Chadian farmers to expect a similar price. The final result was a 25 percent increase in the amount that U.S. manufacturers have had to pay for the Grade 2 material from Chad that we need to fulfill existing contracts with end users. In contrast, the French have been able to secure the balance of the material they require from Sudan at the world market price. Since U.S. firms cannot purchase Grade 2 raw material at the world price, the French have been able to undercut U.S. firms when bidding for contracts into the year 2000 and beyond.

The difficulties arising from the artificially inflated price have been exacerbated by the fact that the Chadian Grade 2 crop is now in very short supply. Given that a sapling requires 5 to 7 years before it may be tapped, it is unlikely that Chad will be able to achieve a significant increase in the near future.

*The Market for Grade 1 Gum.* Our French and English competitors have begun to use the U.S. embargo as a marketing tool and have begun to poach into the domestic Grade 1 gum Arabic market. Realizing that our Sudanese supply must be running low, the French have identified customers who specifically require Sudanese gum Arabic and have been able to convince these firms that U.S. manufacturers will no longer be a viable source of Sudanese material. They then have offered cut-rate pricing and have been able to make small inroads into a market that, prior to the embargo, had been dominated by U.S. manufacturers. The French have also told end users that the supplies held in the U.S. have deteriorated with the passage of time, claiming it is best to get fresh Sudanese material through Europe. Finally, they have questioned the origin of our raw materials, suggesting that we may not be getting them through legitimate channels.

*No Reduction in Total Exports From Sudan.* The embargo of imports into the U.S. of gum Arabic from Sudan has had no effect on Sudan's total exports. This has been confirmed to us by the President of the Gum Arabic Company ("GAC") and is corroborated by a letter from GAC (copy attached) summarizing exports of gum Arabic by the GAC in Sudan to various regions around the world for the periods 1996, 1997, 1998 and 1999 (projected). Despite the imposition of the U.S. trade embargo in November 1997, total exports of gum Arabic from Sudan in 1998 increased by 1,000 metric tons as compared to 1997.

*The Fall in Exports to the U.S. Has Been Replaced by Increased Exports to Europe.* While total exports of gum Arabic from Sudan have been unaffected by the embargo, the recipients of this gum Arabic have shifted dramatically. The U.S. received 7,100

metric tons of gum Arabic from Sudan in 1997, but received only 1,880 metric tons in 1998. In contrast, exports to Europe increased by more than 3,000 metric tons in the same period and are projected to increase by a further 2,000 metric tons in 1999. This information thus confirms that the unilateral U.S. trade embargo as it relates to gum Arabic has no impact whatsoever on Sudan. Rather, it damages U.S. companies while assisting their European competitors.

The information submitted by the GAC is corroborated by trade statistics maintained by the European Union. We have summarized and attached relevant European trade statistics supplied to us by EUROSTAT. This information shows imports of gum Arabic from Sudan into France and the United Kingdom for 1995, 1996, 1997 and 1998,<sup>1</sup> as well as exports of gum Arabic to the U.S. from France and the U.K. for the same periods. As you will see, imports of gum Arabic from Sudan into the United Kingdom more than doubled in 1998, while imports into France increased by more than 80 percent. Exports to the United States have also begun to increase. Clearly, if we are unable to provide our customers with processed gum Arabic, our French and U.K. competitors will have the ability to quickly supply them.

#### CONCLUSION

On April 28, 1999, Under Secretary of State Stuart Eizenstat announced the Administration's new policy pursuant to which licenses will be granted authorizing the commercial sale of food, medicine and medical equipment to countries subject to a unilateral United States embargo such as Sudan, Iran and Libya. As explained by Under Secretary Eizenstat, the change in policy is consistent with the basic objectives of the Administration's overall sanctions reform effort: to ensure that unilateral economic sanctions are effective and that the costs to U.S. interests of imposing sanctions are minimized.

Application of these same criteria lead inevitably to the conclusion that the ban on importing gum Arabic from Sudan should be lifted. The prohibition has had no impact on total Sudanese exports. Thus, as applied to gum Arabic, the Sudanese sanctions are completely ineffective. At the same time, they are imposing prohibitive costs upon United States companies, like ours, that have grown through years of hard work by importing raw gum Arabic from Sudan, processing it here in the United States, and selling it to end users. If unilateral U.S. economic sanctions have no impact upon the targeted government, but threaten to bankrupt U.S. companies and disrupt the United States economy, we submit that those particular sanctions should be reviewed and revised. It may be that unilateral economic sanctions can be justified where they achieve policy goals. In this particular case, however, the effect of the sanctions is the opposite of those intended. Companies like ours should be allowed access to Sudanese gum Arabic accordingly.

Sincerely,

ERIC BERLINER,  
*President*

#### EUROPEAN TRADE IN GUM ARABIC

(Extract and summary of European trade data obtained from EUROSTAT)

Imports of Gum Arabic from Sudan (Metric Tons)		
	France	U.K.
1995 .....	4,525	1,326
1996 .....	5,344	1,028
1997 .....	5,556	1,522
Jan-July 31, 1998 .....	5,864	1,944
1998 (Annualized) .....	10,053	3,333
Percentage increase 1997-1998 .....	81%	119%

<sup>1</sup> We obtained 1998 EUROSTAT data only for the period of January through July. Accordingly, the 1998 data shown on the attachment is an extrapolation from the trade data for the January through July period.

Exports of Gum Arabic to the U.S. (Metric Tons)		
	France	U.K.
1995 .....	2,570	741
1996 .....	3,030	448
1997 .....	4,390	738
Jan–July 31, 1998 .....	2,975	588
1998 (Annualized) .....	5,100	1,008
Percentage increase 1997–1998 .....	16%	37%

